


GETTING AHEAD  
OR LOSING GROUND:  
**ECONOMIC MOBILITY**  
IN AMERICA

BY JULIA B. ISAACS, ISABEL V. SAWHILL, AND RON HASKINS  
THE BROOKINGS INSTITUTION

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ECONOMIC  
MOBILITY  
PROJECT   
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# FOREWORD

BY STROBE TALBOTT AND REBECCA W. RIMEL

Since our nation's founding, the promise of economic opportunity has been a central component of the American Dream. An economy that grew to be the world's biggest and most dynamic also held out the promise that hard work, vision, and risk—regardless of family background—would be rewarded. Perhaps the most remarkable byproduct of the growth of the American economy over the past century has been steady growth in the share of Americans who have been able to achieve a comfortable life and have every hope of seeing their children do even better.

While the American Dream remains a unifying cultural tenet for an increasingly diverse society, it may be showing signs of wear. Growing income inequality and slower growth suggest that now is an important moment to review the facts about opportunity and mobility in America and to attempt to answer the basic question: Is the American Dream alive and well?

With funding and leadership from The Pew Charitable Trusts, and involving scholars from The American Enterprise Institute, The Brookings Institution, The Heritage Foundation and The Urban Institute, the Economic Mobility Project was created to explore these and other questions fundamental to gauging the health and status of the American Dream. This volume, authored by a team of scholars at The Brookings Institution, is one in a series of major research products that aim to enlighten further the public dialogue on economic opportunity. While it offers reassuring findings in some areas, in many others there is room for concern.

Our hope is that by arming the public and policy makers with facts about the status of opportunity in America today, we will stimulate and frame a debate about which policies are likely to be most effective in ensuring that the American Dream endures for the next century.

Sincerely,

**Strobe Talbott**

*President  
The Brookings Institution*

**Rebecca W. Rimel**

*President and Chief Executive Officer  
The Pew Charitable Trusts*





# OVERVIEW

BY ISABEL V. SAWHILL,<sup>1</sup> THE BROOKINGS INSTITUTION

For more than two centuries, economic opportunity and the prospect of upward mobility have formed the bedrock upon which the American story has been anchored. Indeed, a desire to escape from the constraints of more class-based societies was the driving force luring many of our ancestors to this New World, and millions of immigrants continue to flood our borders in search of the American Dream. Americans continue to believe that all one needs to get ahead is individual effort, intelligence, and skills: coming from a wealthy family is far from a necessity to achieve success in America.

Many Americans are even unconcerned about the historically high degree of economic inequality that exists in the United States today, because they believe that big gaps between the rich and the poor and, increasingly, between the rich and the middle class, are offset by a high degree of economic mobility. Economic inequality, in this view,

is a fact of life and not all that disturbing as long as there is constant movement out of the bottom and a fair shot at making it to the top. In short, much of what the public believes about the fairness of the American economy is dependent on the generally accepted notion that there is a high degree of mobility in our society.

Are those beliefs justified? Is there actually a high degree of mobility in the United States? Is America still the land of opportunity? With new data and analysis, this volume addresses these questions by measuring how much economic mobility actually exists in America today.

In sum, the research reviewed in this volume leads us to the view that the glass is half empty and half full. The American Dream is alive if somewhat frayed. Most people are better off than their parents, but slower and less broadly shared economic growth has made the economy more of a zero-sum

game than it used to be, with very high stakes for the winners. Some subgroups, such as immigrants, are doing especially well. Others, such as African Americans, are losing ground.

Americans have generally been tolerant of unequal outcomes in the past, even as gaps between the rich and the poor have risen, since most believe that opportunities to get ahead are abundant and that hard work and skill are well rewarded. We find considerable fluidity in American society. One's family background as a child, measured in terms of either income or wealth, has a relatively modest effect on one's subsequent success as an adult, especially if one grew up in middle-class circumstances. Those at the top or bottom of the ladder are somewhat less mobile. In addition, there is no evidence that opportunity has increased in a way that might offset the slower and less broadly shared growth of income and wealth that families have experienced. Nor is there evidence that the United States is in any



way exceptional when compared to other advanced countries. Indeed, a number of advanced countries provide more opportunity to their citizens than does the United States.

## UNDERSTANDING ECONOMIC MOBILITY

Broadly defined, economic mobility describes the ability of people to move up or down the economic ladder within a lifetime or from one generation to the next. Most of the chapters in this volume measure mobility in the United States in terms of family income; however, wealth also plays an important role in the story, a topic examined in Chapter IV.

Mobility also has a time dimension. One can talk about mobility over a lifetime, between generations, or over a short period such as a year or two. Unlike analyses that investigate shorter-term fluctuations or volatility in incomes, this volume focuses mainly on intergenerational mobility—the extent to which children move up or down the income ladder relative to their parents. This intergenerational focus is intended to capture the spirit of the American Dream, in which each generation is expected to do better than the one that came before.

We also need to distinguish between changes in income across a generation that are the result of absolute and relative mobility and differentiate both of these from changes in income that are due to rising or falling inequality.

Imagine the economy as a ladder upon which we are all perched at some level. This ladder may be getting taller, boosting everyone's incomes, as the result of economic growth. In this volume, we refer to this as *absolute mobility*. At the same time, the rungs on the ladder may be getting closer together or further apart as incomes become more or less equally distributed. We call this a change in the degree of income inequality. Finally, the ability of people to move from one rung to another may be changing as well, depending on the extent of opportunity. We call this a change in *relative mobility*.

Much prior research and public discourse has focused on the rate of economic growth or on the fact that income inequality has been increasing in recent decades. Much less has been written about relative mobility since it requires following what happens to specific individuals' incomes over their life course or over several generations. But knowing more about the degree of relative mobility in the United States is essential to judging the fairness of our society.

To illustrate the importance of relative mobility, consider three hypothetical societies with *identical* distributions of wealthy, poor, and middle-class citizens.<sup>2</sup>

### • The Meritocratic Society:

In this society those who work the

hardest and have the greatest talent, regardless of class, gender, race, or other less-germane characteristics, have the highest income.

### • The Fortune Cookie Society:

In this society, where one ends up bears no relation to talent or energy, and is purely a matter of luck.

### • The Class-Stratified Society:

In this society, family background is all-important—children end up in the same relative position as their parents. Mobility between classes is small to nonexistent.

Given a choice between the three, most people would choose to live in a meritocracy, which is, by its nature, fairer and more just. In a meritocracy, success is dependent on individual action whereas in a class-stratified or fortune cookie society, they are buffeted by forces beyond people's control. Even if the level of income inequality were identical in each of these societies, most people would judge them quite differently. In fact, most individuals might well prefer to live in a meritocracy with more income inequality than in a class-stratified or fortune cookie society with a more equal income distribution. It is worth noting, however, that even in a meritocracy people are born with different genetic endowments and are raised in different family environments over which they have no control, raising fundamental questions about the fairness of even a perfectly functioning meritocracy. These circumstances of birth may



be the ultimate inequalities in any society. That said, a meritocracy with a high degree of relative mobility is clearly better than the alternatives.

In what follows we give special emphasis to relative mobility, but since changes in an individual family's fortunes also reflect what is happening to economic growth (absolute mobility) and how broadly that growth is shared (changes in income inequality), we first examine all three sources of change and then return to how, in combination, they have affected the economic well-being of individual Americans.

### Economic Growth

A growing economy ensures that each generation is better off than the previous one. Economic growth is an important source of upward mobility. A middle-class family in 2008 has access to many goods and services that were either not available in the past (computers, cell phones, microwaves) or were considered luxuries (air travel, air conditioning, television).

But economic growth and the upward absolute mobility it brings families has slowed. From 1947 to 1973, the rate of growth of the typical family's income was unusually rapid, roughly doubling in a generation's time. However, since 1973 the increase over a generation's time has been much smaller, about 20 percent, as noted in Chapter II. In other words,

the tide lifting all boats has weakened with the result that improvements for the youngest generation have not kept pace with what their parents and grandparents experienced.

Underlying this trend have been changes in the earnings of both men and women. Especially surprising is the finding that men in their 30s today are earning less than did the men of their father's generation (men who were in their 30s in the 1970s). As documented in Chapter V, in 2004 the inflation-adjusted incomes of men in their 30s were 12 percent less, on average, than the incomes of men in their father's generation at the same age. Clearly this group of younger men has not benefited from the economic "up-escalator" that has historically ensured that each generation would do better than the last.

And yet in spite of declining incomes for young men, family incomes have continued to rise over the past several decades, albeit slowly. Families are better off because more women have gone to work, and the rise in women's earnings has outpaced the decline for men. No longer can the typical family depend on a single earner to move them up the economic ladder.

However, a number of factors complicate the interpretation of these and other data on family incomes. The first is the declining size of the American family which means that the average family has fewer people to support and thus is financially

better off for this reason alone. The second is the time squeeze and extra costs for child care or other work-related expenses associated with the loss of a full-time homemaker within the family. The third is the growing importance of non-cash benefits, such as health insurance provided by employers or the government. The fourth is our focus on what is happening to the *typical* family, whose fortunes may improve little in a period when most of the gains from growth are going to people who are concentrated at the top of the distribution. Finally, there has been a substantial decline in marriage rates over the past generation. If having two earners is critical to the economic success of many of today's families, then this decline, by depriving many families of a second earner, has reduced economic mobility. Thus, family size and structure both play a critical role in the mobility story, with the growth of the two-earner family being the primary factor that has saved the typical family from downward mobility.

All of these complexities should be kept in mind as one reads this volume, but none of them should, in our view, overturn the basic conclusion that family income growth has slowed. In the process, income inequality and relative mobility have become increasingly important sources of the changing fortunes of individual families.

### Inequality

As suggested above, one reason the average family has not fared better

in recent decades is economic growth has not been broadly shared. Inequality of both income and wealth has been increasing, as documented in Chapters II and IV. Inequality of family incomes fell until the late 1960s but has risen steadily ever since. Wealth is even more unevenly distributed than income, and the concentration of assets at the top of the income distribution has been growing at least since 1989.

### Relative Mobility

These facts about inequality tell us nothing about who is rich or poor. Today's rich may become tomorrow's poor or vice versa. So the more important question may be how much opportunity exists for individuals to move up and down the economic ladder. That is, how much relative mobility do we have in the United States? Do the advantages of birth persist into a second generation or do they dissipate as each generation makes its own way in the world? Does the child born in Newark have anything like the life prospects of a child born in Beverly Hills? Just how much opportunity do children from families with varying amounts of income and wealth have to get ahead? If all or most children have a decent shot at the American Dream, then the fact that the dream may produce very large fortunes for some and very small fortunes for others may not cause much concern. Indeed, large prizes for success may simply stir the kind of ambition and striving necessary to a dynamic economy.

These questions about relative mobility are especially relevant during a period in which inequalities of income and wealth are on the rise. If there were little or no economic inequality and all incomes across society were similar, discussions of relative mobility would have little resonance: people could not improve their economic status significantly by changing ranks. Put differently, if the rungs on the economic ladder were closer together, then occupying one rung rather than another would have few consequences. However, in a society with a high level of economic inequality, in which the rungs on the ladder are increasingly distant from one another, where one stands on the ladder matters a great deal. As income inequality has grown and the ability of economic growth to make each generation better off than the last has weakened, the question of how much opportunity each individual has to move up or down the ladder is critical.

Americans strongly believe that hard work and talent lead to economic success. This underlying belief in the fluidity of class and economic status has differentiated Americans from citizens in the majority of other developed nations. As documented in Chapter III, compared to their global counterparts, Americans are far more optimistic about their ability to control their own economic destiny. They are far more likely to believe that people get rewarded for intelligence, skill, and effort and far less likely to believe that it's the government's responsibility

to reduce differences in income. The public believes, in short, that we should have a society based on equality of opportunity, not equality of outcomes.

So what is the state of opportunity or relative mobility in the United States? Just how fluid a society do we have? In this volume, we approach this question by examining in detail, and with new data, the extent to which family background determines where one ends up in the overall distribution of income and wealth.

As shown in Chapter I, the view that America is "the land of opportunity" doesn't entirely square with the facts. Individual success is at least partly determined by the kind of family into which one is born. For example, 42 percent of children born to parents in the bottom fifth of the income distribution remain in the bottom, while 39 percent born to parents in the top fifth remain at the top. This is twice as high as would be expected by chance. On the other hand, this "stickiness" at the top and the bottom is not found for children born into middle-income families. They have roughly an equal shot at moving up or moving down and of ending up in a different income quintile than their parents.

One method that scholars use to determine how much relative mobility or fluidity exists in the United States is to estimate statistically the extent to which a parent's economic status affects the economic position of their adult children.

The most common measure, called intergenerational income elasticity, has been calculated by numerous researchers, with varying results, but most estimates of this measure find that it is in the neighborhood of 0.5. This number means that, on average, if a child's parents' income is 20 percent higher than the average family in the parents' generation, then the chances are that as an adult the child will have an income that is 10 percent higher than the average for his or her generation. In short, if this mobility measure is 0.5, about half of the advantage of growing up in a more affluent family is transmitted from parents to their children.

Two chapters in this volume, Chapters V and VI, consider whether this advantage is different for men and women or for blacks and whites. For both men and women, but especially for women, there is an additional route to upward mobility beyond earning a good income: marrying well. If a child marries someone whose income prospects are similar to the child's own parents, then marriage may help to preserve the initial advantages or disadvantages conferred by one's family background. Whatever the mechanism by which parents transmit their advantages to their children, the evidence suggests that sons and daughters have fairly similar rates of mobility across generations.

The story for black families is more disturbing. Not only are the

mobility prospects for poor black children worse than the prospects for poor white children, but in addition, the majority of black children born to middle-income parents in the late 1960s have less family income than their parents did. In short, they have been downwardly mobile. Although this finding is based on a fairly small sample, this failure of middle-income black families to pass their advantages on to their children does not suggest that racial economic gaps will close any time soon.

It is not only parents' income but also their wealth in the form of financial assets such as stocks and bonds, and nonfinancial assets such as equity in a home, that can provide advantages to the next generation. Parents may use their assets to improve their children's chances of getting ahead, for example by paying for their education, or they may make direct transfers to their children either before or after death. Chapter IV, which reviews the current data on wealth and its effects on intergenerational mobility, concludes that parent-child wealth correlations are similar to parent-child income correlations but that each generation does have a reasonable shot at accumulating assets. Moreover, the author cautions against thinking that the positive advantages wealthy parents confer on their children primarily reflect the direct inheritance of wealth between generations: only about one-quarter of families actually receive inheritances. Whatever benefits

wealthy parents pass on to their children, they are more subtle or indirect than simple gifts of cash or other assets.

What are we to conclude from the research on relative mobility? Does the United States have the kind of equality of opportunity so often heralded in our public discourse? After all, some association between the incomes of parents and children is to be expected since children will always inherit certain advantages from their parents, if for no other reason than because they share similar genes. Thus, we should not expect the correlation between parents' and children's income or wealth to be zero.

While there is certainly room for more research and debate in this area, the international comparisons analyzed in Chapter III reveal that there is less relative mobility in the United States than in many other rich countries. One well-regarded study finds, for example, that the United States along with the United Kingdom have a relatively low rate of relative mobility while Canada, Norway, Finland, and Denmark have high rates of intergenerational mobility. France, Germany, and Sweden fall somewhere in the middle.

Finally, most of the historical analysis, detailed in Chapter II, reveals that there has been no strong trend in relative mobility since about 1970, although a few studies suggest that relative mobility may have declined. In sum,

inequalities of income and wealth have clearly increased, but the opportunity to win the larger prizes being generated by today's economy has not risen in tandem and has, if anything, declined.

### THE AVERAGE FAMILY'S EXPERIENCE

What does all of this mean for the average family? How have absolute and relative mobility along with growing economic inequality affected individual families over the past three decades?

The first thing to note is that Americans have become quite pessimistic of late about economic prospects for their children. Less than one-third of voters in exit polls after the 2006 election said that they thought life would be better for the next generation.<sup>3</sup> But is such pessimism warranted? How does this attitude stack up against the historical evidence?

Based on new data, Chapter I finds that two out of three people have more inflation-adjusted income than do their parents. Thus, most adult children are doing better than their parents did. And yet there is a downside to this good news: one out of three Americans has a family income that is below what their parents' was a generation ago. These changes in inflation-adjusted income may understate improvements in well-being since families tend to be smaller now and because various benefits that have increased in value, such as health

insurance, are not included in the income measures used for the research in this volume.

However, more of these families must rely on two earners to get ahead and pay the extra costs for child care and other work-related expenses that this entails. To some people, a finding that despite the increased work hours associated with the growth of two-earner families, one-third of American families are worse off than their parents is disturbing. They will argue that had economic growth been higher and more broadly distributed over the past 30 years, many more of today's adults would have been able to climb the economic ladder. Others will emphasize the fact that two out of three people are better off than their parents. From this second perspective, there is much to celebrate and the hand-wringing about rising inequality of income could be viewed as unwarranted.

### The Special Case of Immigrants

There is one group for whom the story is especially positive: immigrants. Virtually all of the research on the fortunes of American families cited thus far is based on a sample of those who were born in this country. Immigrant families are not included in the surveys for the simple reason that if one's parents were born in another country, data on their income is not readily available. But as noted in Chapter VII, devoted specifically to the immigrant experience, for this group the American Dream is alive and well.

About 1.5 million immigrants (two-thirds of them legal and one-third illegal) come to the United States every year, hoping to improve their lives and those of their families.

Because wages and standards of living are often higher in the United States than in their country of origin, most of them experience a big jump in their economic prospects. Those who come from industrialized countries earn more than their native-born counterparts while those who come from less industrialized countries, like Mexico, earn less than non-immigrants in the United States but still far more than they could have earned in their home country. And by the second generation, their children, on average, are doing even better than their parents.

To be sure, the low levels of education among recent immigrants from Mexico and similar countries means that some immigrants, although upwardly mobile relative to their parents, are still earning less than the average American. Still, it seems fair to conclude that the United States remains the land of opportunity for those born in many other parts of the world.

### Looking Forward: The Role of Education

What can we as a society do to ensure that today's children have the kinds of opportunities needed to improve the fortunes of individual families over the coming generation? There is a widely held belief in America that education is the great leveler, and there is strong

evidence that education contributes substantially to earnings and that it can boost the mobility of children from poor and low-income families. As noted in Chapter VIII, a college degree is increasingly the ticket to improving or maintaining one's relative position in the economy.

If it is obvious that education has great potential to boost the economic mobility of the less fortunate, it is important to ask whether the nation's schools do enough to promote economic mobility. An examination of preschool, K-12, and undergraduate and graduate education in the United States reveals that the average effect of education at all levels is to reinforce rather than compensate for the differences associated with family background and the many home-based advantages and disadvantages that children and adolescents bring with them into the classroom. There is no reason to expect change in the disappointing effect of education on economic mobility unless effective reforms are aggressively pursued at all levels. Any detailed discussion of such reforms is beyond the scope of this volume, but the issue should be front and center for those concerned about expanding opportunity.

#### **A GUIDE TO THE REST OF THE VOLUME**

The purpose of this volume is not to address these policy challenges but rather to provide as objective and comprehensive a look at the data

as possible. The chapters that follow include far more information than is reflected in these introductory comments, including a great deal of new data and analysis. For this reason, the reader is encouraged to dip into the succeeding chapters, each of which is briefly summarized below.

#### **“Economic Mobility of Families Across Generations” by Julia Isaacs**

This comprehensive view of intergenerational mobility looks at how the three sources of change in an individual family's fortunes have contributed to their economic position. In examining each of these, Chapter I finds a mixed story for mobility in the United States.

The current generation of adults is better off than the previous one, but their incomes are more unevenly distributed. Median family income for adults who were children in the late 1960s and are now in their 30s or 40s increased 29 percent, from \$55,600 for parents to \$71,900 for their children, adjusting for inflation. The biggest gains have occurred at the top of the distribution and the smallest at the bottom.

Two out of three of today's adults have higher levels of inflation-adjusted family incomes than their own parents. Compared to their parents, they also live in families or households that are smaller and where there is often

a second earner. The higher one's parents' income, the less likely one is to surpass it. If one's parents' income was high, the only way to surpass it is through economic growth. Adults whose parents were lower on the ladder can see an increase in their incomes, both because of economic growth and because they move up the ladder relative to their parents, and many do. Indeed, four out of five children whose parents were in the bottom fifth of the income distribution end up with higher incomes than their parents.

Contrary to American beliefs about equality of opportunity, a child's economic position is heavily influenced by that of his or her parents. Forty-two percent of children born to parents in the bottom fifth of the income distribution remain in the bottom, while 39 percent born to parents in the top fifth remain at the top. Children of middle-income parents have a near-equal likelihood of ending up in any other quintile, presenting equal promise and peril for those born to middle-class parents. Only 6 percent of children born to parents with family income at the very bottom move to the very top.

Finally, the chapter combines the concepts of absolute and relative mobility to create four new categories: about one-third of Americans are “upwardly mobile” and as such have surpassed their parents' income and their parents' economic rankings. About one-quarter of Americans are “riding the tide,” remaining in the same relative economic position

but making more than their parents in absolute terms. A small group of individuals (5 percent) are “falling despite the tide,” having surpassed their parents’ income yet having fallen behind their parents in economic standing. Finally, about one-third of Americans are “downwardly mobile” and as such are both earning less than their parents and have failed to rise above their parents’ economic position. That the portions of the country that are upwardly mobile and downwardly mobile are about the same highlights the conclusion that the mobility story for American families is quite mixed: while the economy is working for some, many others are still being left behind.

### **“Trends in Intergenerational Mobility” by Isabel Sawhill**

Knowing what the trends have been for mobility is useful for interpreting other developments in American society, such as rising economic inequality, and in assessing the degree to which the opportunity to get ahead may have changed in recent decades. Chapter II further details trends in the three sources of change that together determine a family’s fortunes: economic growth, income inequality, and relative mobility.

The chapter finds that throughout American history families have moved up the ladder primarily as a result of economic growth. In short, absolute mobility was high for

much of the nation’s history. But for the most recent generations, those born after about 1970, economic growth has had less impact on the average family and absolute mobility has declined.

While absolute mobility has been declining, income inequality has been rising. Economic growth is no longer as broadly shared as it was in the 1950s and 1960s, so growing gaps between the rich and poor have been forming since the 1970s.

These growing gaps along with slower growth make it more important than ever that children have an opportunity to improve their relative status by moving up the economic ladder. Solid studies, such as those by Gary Solon and Christopher Jencks, suggest that there is little evidence that relative mobility has increased or decreased since about the 1970s. However, the research base for coming to any firm conclusions is limited and the studies do not all agree. For example, according to studies by Bhashkar Mazumder and colleagues, relative mobility has declined.

Looking forward, there is not yet sufficient data to say with any confidence what the experience of subsequent generations will be. However, it is clear that with growing economic inequality and slowing economic growth the effects of family background on one’s ultimate economic success are more important than they used to be.

### **“International Comparisons of Economic Mobility” by Julia Isaacs**

A comparison of mobility in America with mobility in other countries reveals another aspect of the opportunity to get ahead. Chapter III concludes that, for the most part, the widely held assumption of greater economic mobility in the United States is not borne out by the evidence, despite the fact that Americans have more faith in their ability to get ahead than do many people abroad.

The chapter summarizes the work of Miles Corak who, in a comparison of mobility in the United States with mobility in several developed European nations, concludes that America is a low-mobility country in which about half of parental earnings advantages are passed onto sons. The United Kingdom is also classified as a low-mobility country, while France, Germany, and Sweden are mid-range, and Canada, Norway, Finland, and Denmark are considered high-mobility countries, where less than 20 percent of income advantages are passed onto children.

The chapter also reviews research by Markus Jäntti and colleagues that delves more deeply into this question by examining how the relationship between the earnings of parents and children varies for individuals who are on different rungs of the economic ladder. They find that starting at the bottom of the earnings ladder is more of a handicap in the United States



than in other countries. In other words, though there is stickiness at the top and bottom of the earnings ladder in all countries, there is a particularly high amount of stickiness at the bottom for Americans.

There is some good news, however, from this research. First, workers in the middle of the earnings distribution are fairly mobile across all countries, and occupational mobility appears to be higher in the United States than in Europe. Second, the United States seems to rank high when compared with some less developed countries in terms of intergenerational mobility. And finally, U.S. workers seem as likely as European workers to move up or down the earnings ladder in a 5- or 10-year period.

The chapter notes that the international literature focuses only on relative mobility measures and ignores the important effects of economic growth. It thus calls for future cross-country research investigating both absolute and relative mobility in order to gain a more comprehensive view of the opportunity of people in different countries to get ahead.

### **“Wealth and Economic Mobility” by Ron Haskins**

Previous chapters have shown that there is a substantial relationship between the income of parents and the income of their adult children. Does the same relationship exist for the wealth of parents and their

children? Ron Haskins examines this relationship and concludes that parent-child correlations in the amount of wealth families hold are similar to parent-child correlations in their incomes.

What have the trends in wealth been over the past few decades? Haskins shows that from 1989 to 2004, the growth of wealth in the United States was unusually strong but also very unevenly distributed. This was especially so for financial assets, with the top one percent of households controlling an average of 50 percent of all financial assets in 2004.

Indebtedness, which reduces net assets and thus wealth, has also been increasing. Since 1949, total debt as a percentage of disposable personal income has increased nearly fourfold. Haskins shows that those likely to experience trouble with excessive debt are concentrated at the bottom of the income distribution, so the lower the income, on average, the higher the rate of excessive debt.

How wealth is distributed in the current generation is important, but equally important is whether the winners in a given generation can pass their winnings on to their children or use their winnings to boost the economic prospects of their children. The intergenerational wealth elasticity, similar to the intergenerational income elasticity discussed in other chapters, expresses the percentage variation to expect in a child's wealth

in connection with a percentage variation in his or her parents' wealth. Recent studies have found wealth elasticities between .32 and .50 in the United States, indicating that the wealth of children is quite strongly correlated with the wealth of their parents.

The greatest wealth similarity is between parents and offspring at the extremes of the income distribution. For example, children whose parents are in the top quintile of the wealth distribution have a 36 percent chance of also being in the top quintile and a 60 percent chance of being in one of the two top quintiles in their adult years. However, there is still considerable movement by adult children to wealth quintiles other than the one occupied by their parents. For example, 35 percent of adult children of parents in the lowest wealth quintile moved up to the top three quintiles, while over 40 percent of those born to parents in the top wealth quintile moved down to the bottom three quintiles. This suggests that there is a much greater level of intergenerational fluidity than has been suggested by recent accounts in the popular press.

Given the relatively strong relationship between parents' wealth and the wealth of their children, it is important to question why this relationship exists. There are two possible reasons: parents could help their children achieve wealth by making investments in their development or by giving them money directly. However, the majority



of families do not receive substantial gifts or inheritances from their parents or others, suggesting that more indirect influences are at work. This finding combined with the data cited above indicates that the American economy continues to facilitate the production and accumulation of wealth in each new generation.

### **“Economic Mobility of Men and Women” by Julia Isaacs**

If Chapter I provided new data on how today’s families are faring relative to their parents, Chapters V, VI, and VII look beyond the story for all families to examine how mobility may have varied for men and women, for blacks and whites and for immigrants and native-born Americans.

In Chapter V, Isaacs examines how men and women have fared economically over the past few decades and whether the transmission of economic advantage from parents to children has differed for sons and daughters.

Isaacs finds that women in their 30s today have substantially higher personal income than comparably aged women in their mothers’ generation but still make less than their male counterparts. Men have experienced something entirely different. Inflation-adjusted median income for men in their 30s fell by 12 percent between 1974 and 2004. These two trends together led to a slight increase in family incomes over the same time period.

Unlike personal income growth, relative income mobility for sons and daughters has been quite similar. One exception is lower mobility rates for the daughters of low-income parents as compared with the sons of low-income parents, a difference that is at least partly due to the fact that the daughters are more likely to become single parents.

Isaacs finds that the intergenerational transmission of advantages for men is primarily driven by a relatively strong relationship between the earnings of fathers and sons. For both sexes, but especially for women, intergenerational transmission is also affected by the tendency to marry those whose income prospects are similar to one’s parents.

The findings highlight the importance of recognizing that economic mobility generally occurs within the context of families and is not solely a result of individuals operating as lone economic agents.

### **“Economic Mobility of Black and White Families” by Julia Isaacs**

Throughout history blacks have had lower median incomes and higher poverty rates than whites in the United States. Some progress in closing these gaps has occurred, but the pace of change has often been slow or even moved in the wrong direction. While Isaacs shows that median family incomes have risen for both black and white families over the past 30 years, they have risen less for black families, in part because of declines in the incomes

of black men combined with low marriage rates in the black population. The result was no steady progress in reducing the family income gaps between blacks and whites between 1974 and 2004. In 2004, median family income of blacks ages 30 to 39 was only 58 percent that of white families in the same age group.

The data also reveal a significant difference in the extent to which black and white parents are able to pass their economic advantages onto their children. Isaacs finds that not only are white children more likely to surpass their parents’ income than black children at a similar point in the income distribution, but they are also more likely to move up the ladder, while black children are more likely to fall down. Indeed almost half of black children whose parents were solidly middle class in the late 1960s end up falling to the bottom of the income distribution, compared to 16 percent of white children. And black children from poor families have poorer prospects than white children from such families: more than half (54 percent) of black children born to parents in the bottom quintile remain there, compared to 31 percent of white children.

There is still much work to be done in this field, and Isaacs cautions that the current analysis is hindered by the small number of minority households in the longitudinal surveys used to measure intergenerational mobility. She calls for analysis of additional

data sets as well as more extensive research on factors contributing to racial differences to better understand the different mobility experiences of blacks and whites.

### **“Immigration: Wages, Education, and Mobility” by Ron Haskins**

The American engine of economic assimilation continues to be a powerful force, but the engine is incorporating a fundamentally different and larger group of immigrants than it did in earlier generations. Immigration rose during the 1960s, 1970s, and 1980s, and has remained at a high level of nearly one million legal immigrants entering the country each year throughout the 1990s. In addition to legal immigrants, it is estimated that about 500,000 illegal immigrants now arrive each year.

The effects of a much larger number of immigrants on the wages and employment prospects for native-born Americans is a hotly contested issue, and one which has not been resolved. One side, represented by George Borjas of Harvard, argues that increases in less-skilled immigrants have reduced wages and employment and increased incarceration rates for blacks. The other side, represented by David Card of Berkeley, argues that immigrants have affected the demand for goods as well as the supply of labor and that the American economy has had little difficulty absorbing immigrant labor without imposing costs on the native-born.

While the debate over the impact of immigration on native-born Americans is by no means resolved, there is little debate that these immigrants have improved their circumstances by coming to the United States and are experiencing strong upward mobility between generations. Not only is the first generation to arrive in the United States likely to be much better off than their parents in the home country, dramatically so in the case of immigrants that come from less industrialized countries, but the second generation (the children of immigrants) also experiences upward mobility on average.

The story for second generation immigrants is largely determined by the large degree of assimilation that takes place between the first and second generation. While first generation immigrants from non-industrialized nations tend to earn less than average non-immigrant workers, those from industrialized nations tend to earn more. By the second generation the wages of both groups move toward average non-immigrants wages, so second generation immigrants from non-industrialized nations generally experience upward relative mobility, while those from industrialized nations tend to move in the opposite direction. As a much larger number of today’s immigrants come from less industrialized countries, in the aggregate, there is a clear trend of upward mobility amongst second generation immigrants.

At the same time, because these immigrants from less industrialized

countries are becoming more numerous and have a relatively low level of educational attainment, the relative wages of first and second generation immigrants have been declining over the last 60 years compared to non-immigrants. In 1940, new immigrants were earning almost 6 percent more than non-immigrant workers; in 1970, recent arrivals were still earning 1.4 percent more than their non-immigrant counterparts; in 2000, first generation immigrants earned 20 percent less than the typical non-immigrant worker. Relative wages for second generation immigrants have declined similarly.

Although there is considerable assimilation, immigrants in the United States resemble their non-immigrant counterparts in the way in which certain advantages persist between generations. However, as recent immigrants have become more educationally disadvantaged, the challenge of assimilation for the second generation will be greater.

### **“Education and Economic Mobility” by Ron Haskins**

In this chapter, Haskins reviews the basic facts showing the strong correlation between education and income, with every additional degree from high school through graduate or professional school improving one’s income. He notes that although Americans are becoming more educated on the whole, the upward trend has slowed in recent decades, especially for men.

In addition, whites and Asians have significantly higher rates of graduation from both high school and college than do blacks and Hispanics.

Furthermore, data support the assumption that because education has such a strong influence on income, it has a strong influence on economic mobility across generations as well. Haskins shows that a greater percentage of adult children with college degrees exceeded their parents' income than those without a college degree across the entire income spectrum. Thus, whatever one's family background, education provides an important boost to one's future prospects. But

education does not erase the effects of family background. Strikingly, children from low-income families with a college education are no more likely to reach the top of the income ladder than children from high-income families without a college education. In short, education is critical to success in today's economy and an important explanation of why some groups get ahead while others are left behind, but it cannot completely erase the effects of family background on one's ultimate success.

While most Americans view education as the great leveler and a key factor in increasing the mobility of individuals

and their families, Haskins finds, as have others, that education in the United States is not doing as much as it could to improve the fortunes of individual Americans. Indeed, Haskins concludes that at every level from preschool, to the K-12 system, to the nation's colleges and universities, the average effect of education is to reinforce the differences associated with family background. This conclusion is based on the fact that test score gaps by race and income are large even at an early age, and despite many efforts at reform, educational achievement has changed little and the gaps between more and less advantaged students have closed only modestly.

## NOTES

<sup>1</sup> Some of the material for this chapter is drawn from an earlier essay co-authored by Isabel Sawhill and John Morton, entitled “Economic Mobility: Is the American Dream Alive and Well?” Also see Sawhill and McLanahan, 2006.

<sup>2</sup> For more discussion, see Sawhill, 1999.

<sup>3</sup> National Election Pool Exit Poll Results, Edison Media Research, November 7, 2006. <http://exit-poll.net/> or <http://www.cnn.com/ELECTION/2006/pages/results/states/US/H/00/epolls.0.html>

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# I

# ECONOMIC MOBILITY OF FAMILIES

## ACROSS GENERATIONS

BY JULIA B. ISAACS, THE BROOKINGS INSTITUTION

For most Americans, seeing that one's children are better off than oneself is the essence of living the American Dream. Indeed, much of the American spirit is grounded in the belief that with determination and hard work, one can rise from humble beginnings and achieve a comfortable, middle-class life, if not great wealth.

Do children in America, in fact, advance beyond their parents in terms of family income? Do children from different family backgrounds have an equal shot at rising in society?

This chapter seeks to answer these two central questions about the economic mobility of families across recent generations. To explore these questions, the analysis focuses on measures of absolute mobility, or how overall trends in economic growth lead to increased economic well-being, and measures of relative mobility, or how easily Americans of different family backgrounds move up or down the income ladder, in relative economic standing.

### *A Note about Method*

As explained in the overview chapter,

economic mobility has increasingly become a family enterprise. Accordingly, this study focuses on family incomes of both the parents and children in this sample. In chapters that follow, outcomes by gender, race, and education are analyzed for these same families.

The primary source of data for this analysis is a nationally representative sample of children who were ages 0–18 in 1968. These children and their parents have been tracked for more than 36 years through the Panel Study of Income Dynamics (PSID), allowing comparison of the children's income as adults with their family's income in childhood.

Specifically, total family income of the now-grown children averaged across five recent years (1995, 1996, 1998, 2000 and 2002) is compared with the five-year average of their parents' income in 1967–1971. (Further methodological discussion of the PSID data sample and how family income is defined is provided in Appendix A.)

Any analysis that seeks to comprehensively assess the health of the American Dream and economic opportunity must consider both

absolute and relative mobility. Traditional measures of absolute mobility involve comparisons of growth at different points in the income distribution. This chapter introduces a new measure of mobility that directly compares children and parents when assessing growth in real income. For analysis of relative mobility, parents and children are ranked by family income and then divided into five equal-sized groups, or quintiles. The analysis then measures the extent to which families move from one quintile to another.

In addition to analyzing absolute and relative mobility independently, the study introduces a new typology that integrates these two key concepts and describes how Americans experience economic mobility in America today.

### **REAL INCOME GROWTH: THE CURRENT GENERATION IS BETTER OFF THAN THE PREVIOUS ONE**

Adults who were children in 1968—those who were in their 30s and 40s at the end of the century—tend to have more income than did their parents' generation at the same age.

Median family income rose by 29 percent between the two generations, from \$55,600 in inflation-adjusted dollars to \$71,900.<sup>1</sup> Mean or average family incomes, which are more strongly influenced by incomes at the top of the income distribution, grew even more rapidly, from \$61,600 to \$88,000 (a 43 percent increase).

Income growth occurred not only at the median but throughout the income distribution, as shown in Figure 1. When parents and children are each ranked by family income and divided into quintiles, the dividing lines between groups are always higher for the children's generation than the parents' generation.

For example, those parents in the top fifth in 1967–1971 have family income of \$81,200 or higher; the comparable benchmark is \$116,700 or higher for the adult children's generation. Parents with a family income of \$50,000 place in the middle-income group, but in the

next generation, that family income ranks in the second-to-bottom quintile.

Further, as many observers have pointed out in recent years, the amount of growth has been unevenly distributed over the past few decades, with the most rapid growth concentrated at the top of the income distribution. This trend is also visible in Figure 1, which shows income growth at the median of each fifth of the income distribution. Median family income in the top quintile grew by 52 percent, compared to only 18 percent for the bottom fifth. (Note that this figure does not directly compare adult children with their own parents: families who are in the top fifth of the children's generation may not have been in the top fifth in the parents' generation.)

Other data sets with more detailed information on individuals at the very top suggest that growth rates were even higher at the top 1 percent. The Congressional Budget Office found that income of the top 1 percent rose

176 percent, based on after-tax personal income between 1979 and 2004.<sup>2</sup>

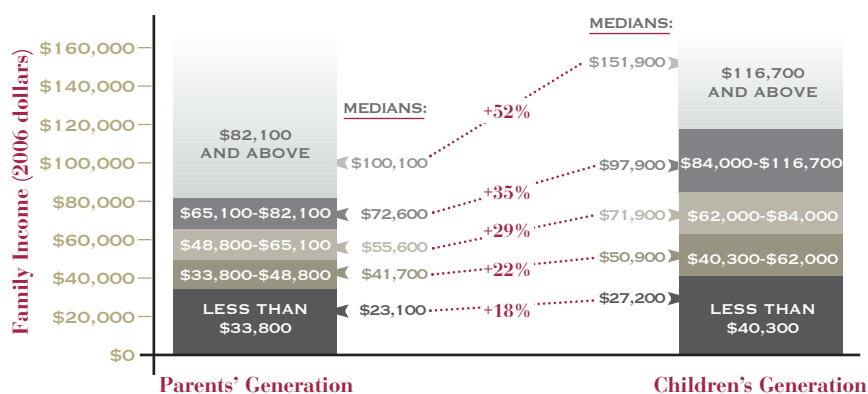
Four important points about the overall increases in income should be noted:

**(1) Incomes and income growth are particularly high in this study, which is based on a sample of native-born adults at prime earning ages.** Family incomes in the PSID sample were measured in 1967–1971, when parents had an average age of 41 years, and again in 1995–2002, when their adult children had an average age of 39 years. The growth in median family income between 1969 and 1998 was only 9 percent when using the Census Bureau's Current Population Survey (CPS), which includes a greater age range and immigrants. When CPS data are restricted to native-born family heads, of prime-earning ages, the growth rate in median family income is similar to the 29 percent observed in the PSID data.<sup>3</sup>

**(2) The growth in family incomes over this time period was accompanied by a shrinking in family size.** According to Current Population Survey data, the average family size for adults in their 30s shrank from 4.5 to 3.2 persons between 1969 and 1998. Taking into consideration the smaller family size as well as the growth in family income, families are generally better off economically today.<sup>4</sup>

FIGURE 1

Change in Income Distribution from Parents' Generation to Children's Generation



Source: Brookings tabulations of PSID data on family income averaged over several years.



**(3) Much of the growth in family income is because more women have gone to work. Moreover, average earnings have increased for those women who do work.**

In contrast, earnings of men in their 30s have remained surprisingly flat over the past four decades. (See Chapter V “Economic Mobility of Men and Women.”)

**(4) Non-cash contributions may affect upward mobility.**

These analyses of changes in family income do not include the effects of fringe benefits, such as employer-provided health insurance and retirement benefits, nor do they include the effects of taxes and non-cash benefits such as food stamps. Data constraints prevent these variables from being easily added to the detailed analysis, but there is some evidence to suggest that upward mobility over the past four decades would be somewhat higher if these non-cash contributions were included. (For further discussion of

non-cash contributions to economic well-being, see Appendix B).

**ABSOLUTE MOBILITY:  
MOST AMERICANS HAVE  
MORE INCOME THAN  
THEIR PARENTS**

While a comparison of median family incomes suggests how one generation is faring relative to earlier generations, it does not describe how individuals fare relative to their own parents. To address this question, levels of family income were compared between matched pairs of children and parents, rather than between aggregate statistics for one generation and an earlier one. The simplest version of this new measure is a “yes/no” determination of whether children have higher income than their parents.

**Two out of three Americans have higher family incomes today than their own parents had some 30 years ago.**

More specifically, 67 percent of Americans who were children in 1968 had higher levels of real family income in 1995–2002 than their parents had in 1967–1971 (see Figure 2).<sup>5</sup> The remaining one-third of Americans had income equal to or less than their parents’ income, after adjusting for inflation. Americans’ optimistic views about mobility and opportunity in America may stem from the fact that two out of three children have higher levels of absolute income than their parents. That family incomes rise over a 30-year period is not surprising. In fact, more children might have advanced beyond their parents’ income if economic growth had been higher and more equally distributed over the past 30 years.

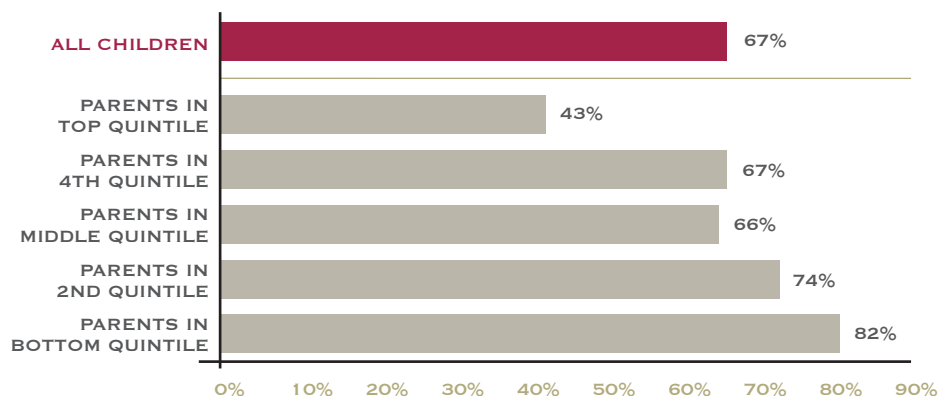
While it would be instructive to compare this statistic to earlier generations, the PSID only began collecting data in 1968. Nor has this type of measure been done for other countries to allow for international comparisons. It is thus hard to say whether it is “good news” that two out of three children have incomes above the income of their parents, or “bad news” that the statistic is not higher.

**Children born to parents in the bottom fifth are more likely to surpass their parents’ income than are children from any other background.**

More than four out of five children born to parents in the bottom quintile

**FIGURE 2**

**Percent of Children with Family Income above their Parents, by Parents’ Income Ranking**



Source: Brookings tabulations of PSID data.

have greater family income than their parents. In contrast, less than half (43 percent) of those whose parents are in the top fifth of income surpass their parents. The higher one's parents' income, the less likely one is to rise above it.

An associated view of income growth is provided in Figure 3, which shows the extent to which children of parents in each quintile surpass their parents' income. This approach provides a picture of the economic performance of the typical child from each of the five groups of family background.

### **The higher the parents' income, the higher the income of the adult child.**

If there were no connection between parents' and their children's income—that is, if there was perfect mobility—the median family incomes for each group of children would be \$71,900, the same as the median family income for the overall population. Instead, the incomes of adults whose

parents were in the top fifth of the income distribution exceed the incomes of children from all other economic backgrounds, and each subsequent group has somewhat lower income. Those whose parents are at the bottom of the income distribution have less than half as much family income as those whose parents were at the top (\$46,100 compared to \$99,700).

### **However, the higher the parents' income, the lower the amount by which children surpass their parents.**

Median family income for children of parents in the highest income group is actually the same as their parents' median family income. Economically privileged children usually grow up to have high incomes relative to other adult children, but not relative to their own parents. At the other end of the spectrum, children whose parents were in the bottom fifth have almost twice as much income as their

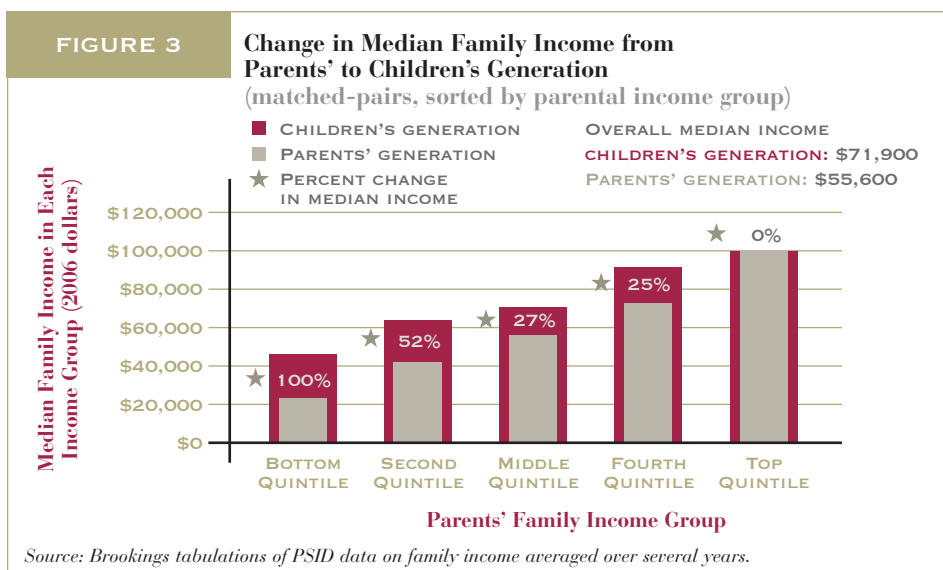
parents—though not enough to bring them abreast of their contemporaries.<sup>6</sup>

A comparison of parental and adult child incomes in actual dollar levels provides a basic measure of mobility that may be consistent with how many people think about their own economic progress. Such measures are strongly affected by overall levels of economic growth, and how this economic growth has translated into income growth.

However, a child with an income that is \$10,000 above his or her parents may not be doing well if most of his or her childhood peers have gained \$20,000, because the child may perceive he or she has fallen in relative economic status. Thus it is also important to examine relative mobility, a topic of considerable study by economists and sociologists.

### **RELATIVE MOBILITY: CHILDREN'S PROSPECTS ARE LIMITED BY FAMILY BACKGROUND**

Do children from different family backgrounds have an equal shot of rising to the top or falling to the bottom of the income ladder? Measures of relative mobility address the question of how children move up and down in social rank, relative to their initial starting point or family background. For this analysis, individuals were assigned to one of five income groups, from lowest to highest, first according to their parents' income and then according to their own income as adults.



The two rankings were then compared to see if children have moved up or down in income ranking.

**All Americans do not have an equal shot at getting ahead, and one's chances are largely dependent on one's parents' economic position.**

A graphic representation of the probabilities of transitioning from one income group to another over a generation is presented in Figure 4, which shows that the probability of ending up in a particular income quintile as an adult depends on where one's parents were in the income distribution.

**Children born to parents in the top quintile have the highest likelihood of attaining the top, and children born to parents in the bottom quintile have the highest likelihood of being in the bottom themselves.**

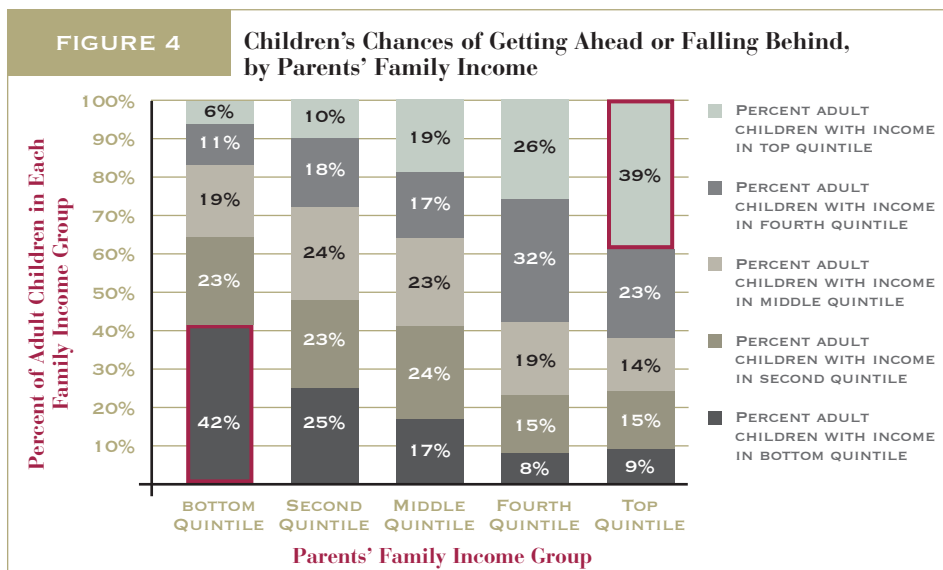
This phenomenon is referred to as “stickiness” at the ends of the income distribution. As shown in Figure 4, it is fairly hard for children born in the bottom fifth to escape from the bottom: 42 percent remain there and another 42 percent end up in either the lower-middle or middle fifth. Only 17 percent of those born to parents in the bottom quintile climb to one of the top two income groups. At the other end of the distribution, 39 percent of children born to parents in the top fifth attain the top themselves with an additional 23 percent landing in the fourth highest quintile.

Surprisingly, American children from low-income families appear to have less relative mobility than their counterparts in five northern European countries, according to a recent international study of earnings of fathers and sons. Whereas 42 percent of American sons whose fathers had earnings in the bottom quintile had low earnings

themselves, the comparable percentages ranged from 25 to 30 percent in Denmark, Finland, Sweden, Norway, and the United Kingdom (see Chapter III, “International Comparisons of Economic Mobility”).

**The chances of making it to the top of the income distribution decline steadily as one's parents' family income decreases.**

Middle-income children are only half as likely as children from the top fifth to climb to the top themselves (19 percent compared to 39 percent). Moreover, only 6 percent of children born to parents with family income in the bottom fifth move to the very top of the distribution, indicating that the “rags to riches” phenomenon of moving from the bottom to the top of the income ladder is infrequent. Nonetheless, there is a fair amount of mobility, and those born at the top of the income distribution have no guarantee of staying there. While 39 percent of those born into the top fifth of the income distribution stay there, more than half—the remaining 61 percent—move downward in the income ranking.<sup>7</sup>



Source: Brookings tabulations of PSID data on family income averaged over several years and reported in 2006 dollars.

Note: The bars show the probability of reaching an income ranking for children of a certain parental ranking. For example, the first bar shows that 42 percent of those whose parents were in the bottom quintile ended up in the bottom quintile themselves, 23 percent of them ended in the second quintile, 19 percent in the middle quintile, 11 percent in the fourth quintile and 6 percent in the top quintile.

**Children born to middle-income parents are close to the “perfect mobility” condition of being equally likely to move to any quintile in the income distribution.**

Children whose parents are in the middle quintile are about as likely to stay in the middle (23 percent) as to jump to the top (19 percent) or fall to the bottom (17 percent). One reason that children in the middle show more mobility than those at the tails of the distribution is that one can move either up or down from the middle, whereas those who start at the top or bottom can move in only one direction.

A number of other researchers have found similar results when analyzing

intergenerational mobility through a transition matrix such as the one presented in Figure 4.<sup>8</sup> Researchers also have developed summary statistics that capture intergenerational mobility information in a single number that summarizes the society-wide relationship between parent and child incomes. The most common such measure, “intergenerational income elasticity,” would be 0.0 in a hypothetical society where parental income has no effect on a child’s economic prospects and 1.0 where there is a one-to-one correspondence between parental income and adult child income.<sup>9</sup>

Recent estimates of the intergenerational income elasticity in the United States range from about 0.4 to 0.6, meaning

that about half of the difference in income between families in one generation persists into the next generation.<sup>10</sup> This aggregate measure of relative mobility is particularly useful when comparing the United States to other countries, or when comparing different points in time and is used in other chapters in this volume. However, it measures income of both parents and children relative to the average for their own generation and is silent on absolute growth across generations.

**A NEW TYPOLOGY: ONE-THIRD OF AMERICANS MOVE UP IN BOTH ABSOLUTE AND RELATIVE TERMS**

Since many Americans think of the American Dream in terms of both gaining higher incomes and rising in society, it is important to demonstrate how Americans move beyond their parents in both absolute and relative terms.

To examine the chances that children’s movement consists of *both* changes in absolute income levels and relative economic standing, the mobility measures used for this analysis

TABLE 1	Children’s Chances of Experiencing both Absolute and Relative Mobility, by Parents’ Family Income (percent in each category)					
	PARENTS’ FAMILY INCOME RANK					ALL FAMILIES
	BOTTOM QUINTILE	SECOND QUINTILE	MIDDLE QUINTILE	FOURTH QUINTILE	TOP QUINTILE	
<b>Upwardly mobile</b> Higher income and up 1 or more quintiles	58	52	36	26	N/A <sup>(1)</sup>	34
<b>Riding the tide</b> Higher income and same quintile	24 <sup>(2)</sup>	20	23	32	34 <sup>(1)</sup>	27
<b>Falling despite the tide</b> Higher income and down 1 quintile	N/A <sup>(2)</sup>	1	7	9	10	5
<b>Downwardly mobile</b> Lower income and lower/same quintile <sup>(3)</sup>	18	26	34	33	57	33
<b>Total all children’s families</b>	100	100	100	100	100	100

Source: Brookings tabulations of PSID data.  
Notes: (1) Those in the top quintile cannot meet this definition of “upwardly mobile,” because there is no quintile above the top quintile.<sup>11</sup>

(2) Those in bottom quintile cannot meet this definition of “downwardly mobile,” because there is no quintile below the bottom quintile.

(3) Any observation with income exactly equal to parents is also classified as downwardly mobile.

were combined in a new, four-part typology, presented in Table 1.<sup>12</sup>

This typology suggests that while many Americans are getting ahead in absolute terms, they are not necessarily moving up the income distribution. As incomes have grown, the whole distribution has shifted upward over time.

**One-third of all children are upwardly mobile under the new typology.**

These children are getting ahead of their parents in real family income and also moving up ahead of their parents in economic ranking (by one or more quintiles). This means that of the 67 percent of Americans who have higher family incomes than their parents, only half move ahead of their parents in income ranking. About half of the children in the bottom and second quintiles are upwardly mobile.

**About one-quarter of children are riding the tide.**

The next generation is getting ahead of their parents' income in absolute terms but remaining in the same economic position as their parents. Making up 27 percent of Americans overall, those riding the tide are more likely to be in the two top quintiles.

**A small group of children, 5 percent, are falling despite the tide.**

They get ahead of their parents' income in absolute terms but fall below their parents' economic position.<sup>13</sup> Close to one tenth of individuals born into the middle, fourth and top quintiles are falling behind despite having more income than their parents. This trend may contribute to the much-discussed anxiety of middle-class Americans today.

**One-third of Americans are downwardly mobile.**

The next generation is falling behind their parents in both real family income and relative rank. One-third of the families in the middle and fourth quintiles are downwardly mobile, and more than half of those in the highest income group are downwardly mobile.

**CONCLUSION**

Traditionally, studies of economic mobility have looked at either absolute or relative mobility, but not both. Both types of mobility are important to assessing the health of the American Dream.

By all measures, many Americans do get ahead of their parents in real income. Assessing absolute mobility across these two generations reveals that median family income has increased, as would be expected in a period of a growing economy. Moreover, a direct intergenerational comparison shows that two-thirds

of Americans make more family income in real terms than their parents did. However, the other one-third fails to surpass the income of their parents, leaving room for further improvement.

Economic position is strongly influenced by parental economic standing. Children of low-income parents and middle-income parents are much less likely to make it to the top quintile than are children born to parents in the top quintile. Further, a high percentage of low-income children remain in the bottom fifth, calling into question the dream that all children have equal chances of achieving economic success.

A new typology of mobility that integrates elements of absolute and relative mobility reinforces the finding that some Americans experience an increase in real income over their parents without moving up in relative standing. This typology indicates that only half of the two-thirds of Americans who make more family income than their parents are upwardly mobile in the sense of also moving up one or more quintiles. Another one-third of Americans are either "riding the tide," that is, moving up in income without changing relative standing, or falling in relative rank despite making more than their parents in family income. Finally, one-third of Americans are actually downwardly mobile in both income and economic rank.

## NOTES

<sup>1</sup>Unless noted otherwise, all incomes are reported in 2006 dollars, using the CPI-U-RS to adjust for inflation. Family incomes are somewhat higher in this PSID sample than in traditional Census Bureau statistics, for reasons discussed in note 3.

<sup>2</sup>Congressional Budget Office, 2006. Though using a somewhat different income measure and time period, the Congressional Budget Office (CBO) finds a similar pattern of higher growth at the top than the bottom. Specifically, CBO reports that between 1979 and 2004, after-tax income rose by 69 percent for the richest one-fifth and 176 percent for the top 1 percent, compared to 41 percent overall and only 6 percent for the poorest fifth of the income distribution. See note 20 for fuller description of the after-tax income measure used in the CBO analysis.

<sup>3</sup>Comparisons of the PSID and CPS indicate that the PSID estimates of income are generally higher than those in the CPS, but follow similar trends over time. (See Gouskova and Schoeni, 2007; and Yong-Seong Kim and Stafford, 2000). Also, family incomes and income growth are high in this analysis because it focuses on families with children in the United States in 1968, excluding the elderly and very young adults, as well as those without children in 1968 and the large number of immigrants who have arrived since 1968. (For information on immigrant mobility, see the chapter “Immigration: Wages, Education, and Mobility”). While the CPS has lower incomes, it has similar growth rates when the analysis is restricted to a subsample of CPS families that resemble the PSID families in age, presence of children, and native-born status, as shown in the table below:

**Family Income Comparisons**

	MEDIAN FAMILY INCOME		CHANGE IN FAMILY INCOME
	EARLY YEARS 1967-1971 (PSID) 1969 (CPS)	LATE YEARS 1995-2002 (PSID) 1998 (CPS)	PERCENT
PSID Longitudinal Sample of Those who were children in 1968	\$55,600	\$71,900	29
CPS Cross-Sectional Samples of Family Heads ages 30–48, who have children and who are native-born	\$48,003	\$63,233	32
CPS Cross-Sectional Sample of All Family Heads (including unrelated individuals as head of family of one)	\$38,022	\$41,463	9

<sup>4</sup>Family income adjusted for family size (by dividing family income by the square root of family size) grew by 33 percent after inflation, from \$22,400 to \$29,800, according to CPS data for all families in 1969 and 1998.

<sup>5</sup>The percentage of children who are better off than their parents would increase from 67 percent to 81 percent if family incomes were adjusted for family size, because the children’s generation has smaller family size. Also note that the same analysis was done on a restricted sample, of adults ages 33–48 (instead of 27–52), to explore the sensitivity of the results to the age range at which the incomes of adult children were measured. Under the tighter age sample, the number of adult children who exceeded their parents’ income was slightly higher but still rounded to 67 percent.

<sup>6</sup>Note that the analysis classifies individuals into five groups based on parental income status, and then measures change from that parental income status. One would therefore expect some increase from the lowest parental income status, consistent with a tendency called “regression to the mean”; those with extreme scores at one point in time due to random chance or luck will tend to have less extreme scores when measured later. Some of the parents who are classified into the bottom category may be experiencing atypically low income in those five years, relative to their life-time experiences or the experiences of their children. Using five years of income rather than one introduces fewer distortions, as the one year might represent abnormally low income.

<sup>7</sup>This downward movement by 61 percent of children born at the top helps explain the finding (presented in Figure 3) that the adult family median incomes of children from the top fifth is slightly below the median income for their parents. This occurs despite the fact that the 39 percent who remain at the top are doing extremely well—recall from Figure 1 that income growth was highest at the top of the income distribution. However, the downward mobility of the others brings down the median income of this group, particularly when compared to their parents, 100 percent of which are, by definition, at the top fifth of the parental generation.

<sup>8</sup>See Hertz, 2005; and Jäntti, Bratsbert, Roed, Rauum et al., 2006 for two recent analyses using the PSID data; see Peters, 2002 for similar analysis using data from the National Longitudinal Survey of Youth (NLS). Administrative data offers another opportunity to track incomes longitudinally, but such analyses are generally limited to individual earnings, not family income.

<sup>9</sup>The intergenerational elasticity (IGE) measure comes from a linear regression equation estimating the relationship between children’s and parents’ income, with both child and parental income expressed in logarithmic measures. It measures the percentage difference in expected child income associated with a one percent difference in parental income. The same technique can be used to measure the intergenerational elasticity of earnings as well as income. In societies where there is more inequality in the children’s generation than the parents’ generation, the IGE can fall outside the 0 to 1 range. To interpret the IGE, imagine a group of parents whose income is 80 percent higher than average. If they are in a society with an IGE of 0.5, then their children will, on average, have incomes that will be 40 percent higher than average (80 percent x 0.5). If they live in a society where the IGE is only 0.2, then their children’s income would average only 16 percent above average (80 percent x 0.2). And at the extreme of an IGE of 0, any large group of children would have average incomes unrelated to the income of their parents.



<sup>10</sup> Corak, 2006; and Sawhill and McLanahan, 2006.

<sup>11</sup> A more detailed analysis finds that the 34 percent in the top quintile who are “riding the tide” includes 8 percent who move upward to the top decile from the ninth decile. Similarly the 24 percent in the bottom quintile percent with higher income and the same quintile includes < 1 percent who move down from the second to the bottom decile.

<sup>12</sup> John E. Morton and Ianna Kachoris of Pew’s Economic Mobility Project collaborated with the author in developing the typology presented in Table 1.

<sup>13</sup> Imagine, for example, a family where the parents made \$50,000 and the children made \$60,000. Despite a \$10,000 increase in absolute income, such a family would drop in ranking, from the middle fifth in the parents’ generation to the second-to-bottom fifth in the children’s generation, as shown in the display of quintiles in Figure 1.



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## II

# TRENDS

## IN INTERGENERATIONAL MOBILITY

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The previous chapter showed that because of economic growth and because people are free to move up and down within the ranks, there is considerable economic mobility in American society. It is also true that one's relative economic status as an adult is significantly influenced by the income of the family in which one grew up.

To what extent, however, has intergenerational mobility changed over time? Are Americans more or less mobile across generations than they were in the past? To answer this question, this chapter focuses primarily on the last half century, for which the best data exists, but uses evidence from earlier periods in order to place the findings in historical context.

People will disagree about the ideal amount of intergenerational mobility and thus about how to interpret any trend. Still, knowing what the trends have been is useful for interpreting other developments in American society and in assessing the degree to which the opportunity to get ahead exists.

This chapter concludes that over the long sweep of American history, families have moved up the ladder primarily as a result of the nation's economic growth. In short, through much of the nation's history, absolute mobility was high. But for the most recent generations, those born after about 1970, economic growth has had less impact on the average family and absolute mobility has declined.

In some periods, economic growth has been broadly shared as it was in the 1950s and 1960s, and at other times, such as from the 1970s until now, it has led to growing gaps between rich and poor. This increasing inequality along with slower economic growth make it more important than ever that children have an opportunity to improve their relative status by moving up the economic ladder.

But has relative mobility increased? Although the research base for coming to any firm conclusions is limited and the studies do not all agree, taken as a whole, the current literature does not suggest that the rate of relative mobility has changed much since about 1970. If anything, relative mobility may have declined.

### WHY MOBILITY CHANGES

Imagine a society in which all upward mobility was the result of economic growth but in which everyone stayed in the same relative position as their parents:

- If the growth were broadly and equally shared, everyone's income would increase by the same percentage.
- If growth were not broadly shared, then everyone's income might still rise but by different percentage amounts, and income gaps at the end of the period would be larger if inequality were increasing or smaller if it were declining.
- If there were no growth, but simply a change in individual fortunes, or relative mobility, some people, mainly the poor, would be better off and others, mainly the rich, would be worse off at the end of the period.

What makes studying economic mobility so difficult is that in actuality, all three sources of change in people's

fortunes—growth, inequality, and mobility—are occurring at the same time. The ladder may be getting taller as the result of economic growth; the rungs on the ladder may be getting further apart or closer together as the result of changes in inequality; and the ability of people to move from one rung to another may be getting more or less constrained as the result of relative mobility. By considering trends in each source of change separately we can gain a better understanding of what has been happening to the ladder over the past few decades and thus see more clearly what determines the economic well-being of individual Americans.

### TRENDS IN GROWTH OR ABSOLUTE MOBILITY

Since 1880, the U.S. per capita gross domestic product has increased at an average of about 70 percent over each generation (roughly every 25 years).<sup>1</sup> Focusing on the period since 1947, when data on household incomes first became available, Table 1 shows that the rate of growth of the typical family's income increased unusually rapidly in the first few decades of this period and then slowed after 1973. For example, between 1947 and 1973, incomes roughly doubled. Since 1973, the increase over a generation's time has been much smaller, about 20 percent. For this reason alone, upward mobility in recent decades

TABLE 1		
Trends in Real Median Family Income		
	ANNUAL GROWTH RATE	GENERATIONAL INCOME RATIO <sup>2</sup>
1947-1973	2.8%	2.0
1973-1999	0.9%	1.2
1999-2005	-0.3%	NA

*Source: Mishel, Bernstein, and Allegretto, 2007; and U.S. Census Bureau, Table F-6.*

has slowed, and relative mobility and income inequality have become more important sources of a family's economic status.

Efforts to measure intergenerational mobility going back to the nineteenth century have had to rely on imperfect data, some of it far more qualitative than what is available for recent decades. However, such studies generally found higher rates of absolute mobility in the United States than in Europe or in Britain. Much of the greater intergenerational mobility in the United States noted in these historical studies was due to the faster rate of growth that the United States experienced as compared with the older economies of Europe. In other words, there was a high rate of absolute mobility. A farmer's son could become a skilled factory worker, and the factory worker's son could become a computer programmer.

Relative mobility during this period also rose as educational opportunities reached more and

more Americans, discrimination against formerly excluded groups diminished, and employment practices shifted toward placing greater emphasis on merit and less on social connections of various kinds.<sup>3</sup>

The research on this earlier period, in addition to being less detailed or reliable than the research since 1960 when better data became available, typically uses occupation or education rather than income to measure socioeconomic status.<sup>4</sup> Its significance lies in the fact that it shows that one reason that the United States has often been described as “the land of opportunity” is because the nation experienced strong economic growth through much of its history.

### TRENDS IN INEQUALITY

Although President Kennedy famously noted that a rising tide lifts all the boats, in a period of rising inequality, some boats rise more than others. As illustrated in Figure 1, inequality of individual

earnings, which fell from the 1930s until the mid-1950s in the United States, has been rising ever since. Inequality of family income continued to fall until the late 1960s and has risen sharply since that time.<sup>5</sup>

In a society in which all incomes are virtually the same, relative mobility would be irrelevant since people could not improve their economic status significantly by changing ranks. But in a society with very unequal incomes where one stands on the ladder matters a great deal. The stakes associated with winning or losing are high. Because the United States is now a country where inequality is high by historical standards, relative mobility matters much more than it did in the past.

Some people believe that increased inequality in the United States has been offset by high or rising relative mobility over the past few decades.<sup>6</sup>

When researchers note that the rich are getting richer and the poor are getting poorer, they base such statements not on the paths of specific individuals over time but instead on what has happened to different income groups (typically divided into five equal-sized fifths or quintiles). But people move between income groups. Those in the bottom quintile at the beginning of a period are not necessarily the same people who are in the bottom quintile at the end of the period. The fact that the bottom quintile as a whole may have experienced fewer gains than those higher up in the income distribution tells us nothing about what is happening to particular individuals who may have started out in the bottom quintile and ended up somewhere else. It could be that those in the bottom quintile in 1970, for example, had all moved into the middle quintile by 2000.

So when one compares the change in average incomes by quintile it provides an incomplete picture of what is happening to actual families or the individuals within them. Think of a hotel in which some of the rooms are luxurious executive suites while others are small and modest. The executive suites may be getting fancier over time and the modest rooms ever more modest. But if a different group of people occupies the executive suites each year, and everyone has a decent shot at staying in these fancier rooms, people have less reason to complain. Relative mobility is similar to this kind of room-changing. In particular, if relative mobility had increased at the same time that income inequality has risen, then there would be less reason for concern about rising inequality.<sup>7</sup>

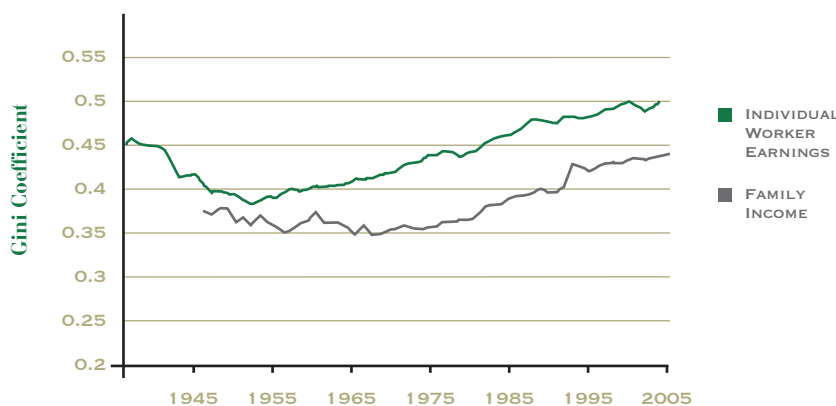
If the inequality of family incomes has been rising since the late 1960s, is there any evidence that this has been partially or completely offset by a change in relative mobility or in one's chances of moving up or down relative to one's parents?

## TRENDS IN RELATIVE MOBILITY

After considering some of the reasons for possible changes in relative mobility and the difficulty of measuring the trend, this section concludes with a summary of what the research suggests about such trends.

FIGURE 1

Trends in Inequality of U.S. Worker Earnings and Family Income, 1937–2005



Sources: U.S. Census Bureau, Table F-4; and Kopczuk, Sawz, and Song, 2007. Based on Social Security earnings data for all employees, aged 18 to 70, in commerce and industry with earnings above minimum threshold (\$2,575 in 2004).

## Possible Reasons for Changes in Relative Mobility

There are several reasons why we might expect relative mobility to have increased over the past half century. First, government investments in children that target the less advantaged and effectively enhance their productivity relative to children from more advantaged backgrounds would tend to increase mobility.

On the other hand, greater family investments, which usually favor more advantaged children given their parents' greater financial and non-financial resources, would have the opposite effect.

Recent decades have seen some of both effects. The 1960s War on Poverty and increased spending on means-tested programs, along with the opening of opportunities for women and minorities that followed the activism of that period, might have increased mobility for children born in the 1970s and 1980s who are in their young adult years now. Examples of family investments that may have decreased relative mobility include a widening gap in marriage rates between more and less educated mothers and the different developmental trajectories this implies for their children.<sup>8</sup> Another example is parental investments in higher education that are increasingly correlated with parents' income.<sup>9</sup> As seen in Chapter VIII "Education

and Economic Mobility," these differential investments in higher education are coming at the same time that the returns to higher education have risen. Thus unequal parental investments in higher education could reduce intergenerational relative mobility. The net effects of these or other developments over the past few decades are difficult to predict.

## Measuring Trends in Relative Mobility

Relative mobility can be measured in two ways. The first is by inspecting a mobility table much like the one found in Chapter I "Economic Mobility of Families Across Generations." It shows that a child growing up in a family at the bottom of the income distribution has much less of a chance of rising to the top than one who has middle-income origins, for example.

A second measure of mobility is "intergenerational income elasticity."<sup>10</sup> This measure attempts to capture in a single number the strength of the overall relationship between a child's parents' income and that child's income as an adult. Most estimates of this measure find that it is in the neighborhood of 0.5. This means that, on average, if a child's parents' income is 20 percent higher than the average family in the parents' generation, then the chances are that the child will have an income that is 10 percent higher than the average for his or her generation. In short, this mobility measure

is 0.5, about half of the advantage of growing up in a more affluent family is transmitted from parents to their children.

There have been only limited studies of trends in intergenerational income mobility, and those that exist do not all agree with one another. Research in this area has been plagued by the limited data available. Obtaining a good answer about trends requires data covering several different generations of adults for whom information on their family's economic status when they were children is available.

## What the Research on Relative Mobility Has Found

A pioneering study using the more sophisticated data and techniques now available indicates that there was an increase in occupational and income mobility among men born in the 1930s or 1940s (who reached maturity in the 1960s) in comparison to earlier cohorts.<sup>11</sup>

After that period, income mobility appears to have leveled off, at least for men.<sup>12</sup> Among women, relative mobility appeared to increase somewhat between the 1970s and the 1990s. This may be because in the earlier period far fewer women were in the labor market, with the result that their family income was determined more by whom they married than by their own achievements. The increase in



mobility for women suggests that parental background is more important in determining marriage outcomes than labor market outcomes.

Recently, several researchers have used particularly innovative techniques to tease more out of the limited data that exists. One such study, by Lee and Solon, uses the Panel Study of Income Dynamics to study children born between 1952 and 1975, who were 25 to 48 in 2000, the last year for which data were available. This study finds no evidence of any major change in intergenerational income mobility over this period for men. Figure 2 shows the intergenerational income elasticities for sons and daughters who reached adulthood (age 25) between 1977 and 2000. The results for daughters show some decrease in mobility for this group early in the period, in contrast to the findings discussed above, but

this result may be anomalous.<sup>13</sup> Using the same data, Hertz similarly finds no evidence of a long-term trend for those children born between 1952 and 1975 who were observed as adults between 1977 and 2000.<sup>14</sup>

Not all researchers accept these two studies as the last word on the topic. Using another approach to measuring trends, Levine and Mazumder, for example, come to a different conclusion. They look at the extent to which siblings who grow up in the same family and thus have similar family backgrounds have adult incomes that reflect this common background or whether their incomes diverge substantially as they make their own way in the world. If the correlation between the incomes of siblings has decreased that would be an indication that mobility has risen. Conversely, if the correlation has risen, it would suggest that

family background is becoming more important and that mobility is declining.

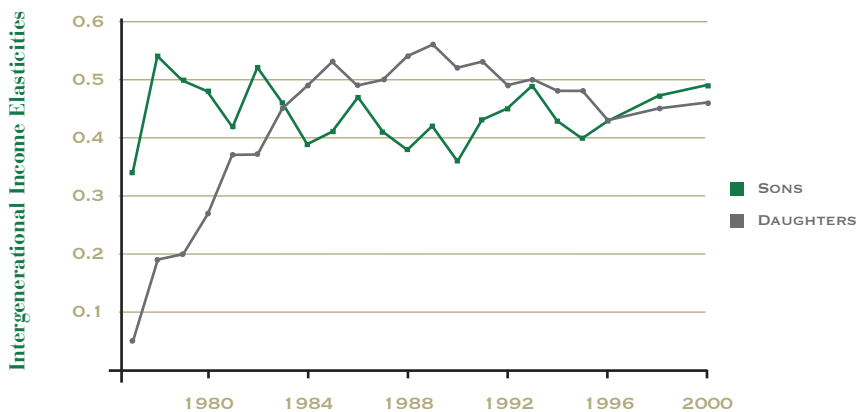
Using this approach, Levine and Mazumder conclude that intergenerational mobility has decreased over the past few decades. Adults who are now in their 40s, for example, seem to have experienced less mobility than those of the previous generation who are now in their late 50s and early 60s.

Specifically, they find that the correlation between brothers' annual incomes has risen from 0.21 for brothers born between 1944 and 1952 who entered the labor force in the 1970s to 0.42, for those born between 1957 and 1965 who entered in the late 1980s. This doubling of the correlation coefficient strongly implies that there has been less relative intergenerational income mobility for the younger cohort of adults.<sup>15</sup> In another recent paper, Aaronson and Mazumder attempt to circumvent the lack of data covering multiple generations by creating synthetic parents (based on age, ancestry, and state of residence from census data) for children who reach adulthood in different years.<sup>16</sup> They find an increase in intergenerational mobility between 1940 and 1980 but declines thereafter.

Overall, the most direct evidence of relative mobility across generations does not suggest any strong trend,

FIGURE 2

Income Mobility for Sons and Daughters, 1977–2000



Source: Lee and Solon, 2006. Based on family income data from the Panel Study of Income Dynamics for children born between 1952 and 1975. Family income is observed when the children are at least 25 years old.

but as these last two studies indicate, some research points to a decline in recent decades.

## CONCLUSION

As inequality has increased, the debate about the extent of mobility in American society has heightened. As income gaps have widened, the opportunity that children have to do better than their parents is

increasingly important. Children often move up or down the income ladder relative to their parents. Whether they do so at a faster or slower rate than they did in the past is not a settled question. But since the rungs of the ladder are further apart than they used to be, the effects of family background on one's ultimate economic success are larger and may persist for a longer period of time.

Over the next decade, as the children who grew up in the 1980s and later reach their prime earning years, the story could change, but there is not yet sufficient data to say with any confidence what their experience will be.

# NOTES

<sup>1</sup> Per capita real GDP increased by 63 percent between 1880 and 1905 (25 years), by 49 percent between 1905 and 1929 (24 years), and by 89 percent between 1929 and 1955 (26 years). The generational income ratio was thus roughly 1.7 over this period. These data are from the Bureau of Economic Analysis, supplemented by Maddison, 1982. The reason we do not always use exactly the same number of years to measure “a generation’s time” is that abnormally high or low unemployment rates can skew the results unless some adjustments in the length of the period are made. For more on the role of growth in creating upward mobility across generations see Hout, 1988; and McMurrer and Sawhill, 1998, pp. 48-49.

<sup>2</sup> The two earlier subperiods in the table each cover 29 years, roughly the length of a generation. The income ratio is median family income at the end versus the beginning of the period.

<sup>3</sup> See Biblarz et al., 1996; Ferrie, 2005; and Grusky, 1989. Also, see Beller and Hout, 2006, for evidence on occupational mobility from 1930 through 1979 but note that these data reflect changes in occupational structure over this period and thus reflect both absolute and relative mobility. For one attempt to sort out the role played by changes in absolute versus relative mobility for a portion of this period, see Hout, 1988; and McMurrer and Sawhill, 1998, chapter 6, pp. 45-50.

<sup>4</sup> For the most part, these alternative measures do not tell a fundamentally different story than income, and so we can use them to flesh out the picture of what has happened across several generations. See Harding et al., 2005, p. 121, for evidence that this is a reasonable assumption.

<sup>5</sup> These figures use the Gini coefficient to measure inequality. If incomes were completely equal the coefficient would be zero. If one person had all of the income, the coefficient would be one. Thus an increase in the coefficient signals an increase in inequality.

<sup>6</sup> The *Wall Street Journal* editorial page notes, for example, that claims of rising income inequality are “so much populist hokum” because the United States is “marked by rapid and mostly upward mobility.” The editorial cites a Treasury study as evidence for this assertion. *Wall Street Journal*, November 13, 2007.

<sup>7</sup> This chapter does not review the extensive literature on what has been happening to intragenerational mobility—that is, to movements up and down the income scale over one’s career—but the same issue arises in thinking about intergenerational mobility.

<sup>8</sup> On the marriage gap, see Ellwood and Jencks, 2004; on the different developmental trajectories that this gap implies, see McLanahan et al., 2005.

<sup>9</sup> See Ellwood and Kane, 2000; and Haveman and Smeeding, 2006.

<sup>10</sup> There are two measures of relative mobility that are commonly used in the literature. This chapter emphasizes intergenerational income elasticity. Another common measure is the correlation between parents’ and children’s incomes (or other measures of socioeconomic status). The difference between the two is that the elasticity incorporates any change in inequality over the relevant time period. That is, the elasticity equals the correlation between parents’ and child’s income times the standard deviation of the log of children’s income divided by the log of parents’ income. See Harding et al., 2005, p. 144. While the two measures are the same if there is no change in inequality over the observed time period, they can show different trends in a time of growing inequality. When inequality is growing, then even historically normal rates of positional mobility can lead to more persistence of income differences across generations based on parental advantages.

<sup>11</sup> Featherman and Hauser, 1978.

<sup>12</sup> Harding et al., 2005. Table 3.2, p. 120; note that Harding et al.’s measure of mobility is the multiple correlation between a son or daughter’s family income at age 30 to 59 with a set of background characteristics that include income, occupation, education, race, ethnicity, region, and number of siblings.

<sup>13</sup> The findings show an increase in intergenerational income elasticity and therefore a decrease in mobility up until about 1983 for daughters but the authors are reluctant to call this a true decrease given the sample size and other methodological problems. See Lee and Solon, 2006, p. 13.

<sup>14</sup> Hertz, 2007.

<sup>15</sup> Some of the correlation in the incomes of brothers is due to factors other than family income, such as school or community influences or shared genetic or cultural influences within the same family that are unrelated to family income. However, there is not much reason to believe that these have changed very much over this period. The sibling correlation coefficient is equal to the square of the intergenerational income elasticity plus factors that are uncorrelated with family income. For more details, see Solon, 1999, p. 1777.

<sup>16</sup> Aaronson and Mazumder, 2007. For example, in the 1970 census, children born between 1936 and 1940, were 25 to 29 and the family income of their synthetically matched parents can be estimated from the 1940 census, when they were ages 0 to 4, and the 1950 census, when they were 10 to 14. The results in the text refer to trends in the intergenerational elasticity. There is less of a trend in the intergenerational correlation. The latter measure suggests increased mobility in the 1970s but a return to historical levels in the 1980s and 1990s.

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### III

# INTERNATIONAL COMPARISONS OF ECONOMIC MOBILITY

BY JULIA B. ISAACS, THE BROOKINGS INSTITUTION

Freedom from the constraints of aristocratic society lured many of our ancestors to cross the ocean to the New World. European visitors such as Alexis de Tocqueville marveled at the economic dynamism and social mobility of American society in the first half of the nineteenth century.<sup>1</sup> More recently, immigrants continue to cross our boundaries in search of the promise of the American Dream. Given this history, many Americans believe that the opportunities for moving up the economic ladder are greater in the United States than they are

in other countries. But is this widely held assumption of greater economic mobility in the United States borne out by the evidence? A review of international surveys and cross-country research on economic mobility yielded the following answers to this question.

**AMERICANS ARE  
MORE OPTIMISTIC  
THAN OTHERS ABOUT  
THEIR CHANCES OF  
GETTING AHEAD**

Americans have more faith than do people in other countries that

they will receive economic rewards for individual effort, intelligence, and skills. About two-thirds of Americans (69 percent) agree with the statement that “people are rewarded for intelligence and skill,” the highest percentage across 27 countries participating in an international survey of social attitudes conducted between 1998 and 2001.<sup>2</sup> As Figure 1 indicates, only about one-fifth (19 percent) of Americans believe that coming from a wealthy family is essential or very important to getting ahead; the median response among all countries was 28 percent.





Widespread belief in one's ability to get ahead may explain why Americans are more accepting of economic inequality than are people in other countries. While there are large gaps between rich and poor in the United States, and a majority of Americans (62 percent) agree with the statement that income differences in this country are too large, in other countries much greater majorities hold this belief: 85 percent is the median response and 96 percent is the maximum response. Another strong cultural difference is that Americans are less likely than others to believe that the government should take responsibility for reducing income disparities; only one-third of Americans (33 percent) hold this view, compared to percentages ranging from 46 percent (in Canada) to 89 percent (in Portugal) in the other countries.

### **ECONOMIC MOBILITY OF FAMILIES ACROSS GENERATIONS IS LOWER IN THE UNITED STATES THAN IN MANY OTHER COUNTRIES**

While Americans have an optimistic faith in the ability of individuals to get ahead within a lifetime or from one generation to the next, there is growing evidence of less intergenerational economic mobility in the United States than in many other rich industrialized countries, at least according to the relative mobility measures commonly used in economic research.

**The earnings of American men are more closely tied to the earnings of their fathers than are those of men in other countries.**

Both the United States and the United Kingdom stand out as having higher associations between fathers' and sons' earnings—and therefore less economic mobility—than do seven other industrialized countries, according to a comprehensive review by Corak. After reviewing dozens of studies of the earnings relationship between fathers and sons in the United States and other countries, and adjusting the statistics for comparability to the extent possible, Corak ranked the nine countries in the order shown by the bars in Figure 2.

#### **• Low-mobility countries.**

In the United States and the United Kingdom, about half (50 percent) of parental earnings advantages are passed onto sons. If trends hold consistent, it would take an average of six generations

### **Caveats Regarding Cross-Country Comparisons of Intergenerational Mobility**

Most studies of intergenerational economic mobility focus on *relative* mobility, measuring the extent to which fathers who are low (or high) in the overall earnings distribution tend to have sons who also are low (or high) in the earnings distribution.<sup>3</sup> Hence, the research ignores the question of cross-country differences in *absolute* mobility, that is, the likelihood that individuals in a given country will have higher standards of living than their parents due to national rates of economic growth.

In general, intergenerational economic mobility research is based on longitudinal surveys or administrative data records that follow the same families within countries for several decades, permitting data linkages between individuals and their parents. Estimates of mobility are quite sensitive to the

way that data are collected and measured in each country and the methodological decisions made by researchers.<sup>4</sup> Moreover, little is known about the experience of immigrants to different countries, because the available data sets focus primarily on native-born citizens.<sup>5</sup>

Two recent studies that have attempted to carefully address issues of cross-country comparability are summarized in this chapter. Both studies, like most international reviews, have a primary focus on the earnings of fathers and sons, because data sets on male earnings are more readily available and comparable than data sets on family income. While these studies represent the best available evidence to date, there is still margin for error around the precise estimates and the exact rankings of countries by mobility status.

for family economic advantage to disappear in the United States and the United Kingdom.

- **Mid-range countries.** France, Germany, and Sweden were in the mid-range of mobility measures for these nine countries.<sup>6</sup>
- **High-mobility countries.** Paternal earnings had the least effect on sons' earnings in Canada, Norway, Finland, and Denmark, where less than 20 percent of income advantages are passed onto children. The implication of these statistics is that in these countries it would take three, not six, generations, to essentially cancel out the effects of being born into a wealthy family.

Recent studies suggest that Italy may be in the same “low-mobility” range as the United States and the

United Kingdom, while both Spain and Australia join the list of countries with higher rates of mobility than the United States.<sup>7</sup>

**The notion of “American exceptionalism” is given new meaning in a second international study that also finds less—not more—mobility in the United States.**

Markus Jäntti and a team of researchers also found that relative mobility across generations is lower in the United States, based on a recent study that used standardized data sets and a consistent approach to measure mobility in each of six countries.<sup>8</sup> While the research team's efforts to follow a common methodology strengthens the credibility of their findings, the study group is limited to Denmark, Finland,

Norway, Sweden, the United Kingdom, and the United States.

For the most part, Jäntti et al. provide similar estimates of the association between fathers' and sons' earnings as Corak's statistics shown in Figure 2.<sup>9</sup> The one exception is that the United Kingdom was in the mid-range of mobility in the six-country study, more closely resembling Sweden than the United States.

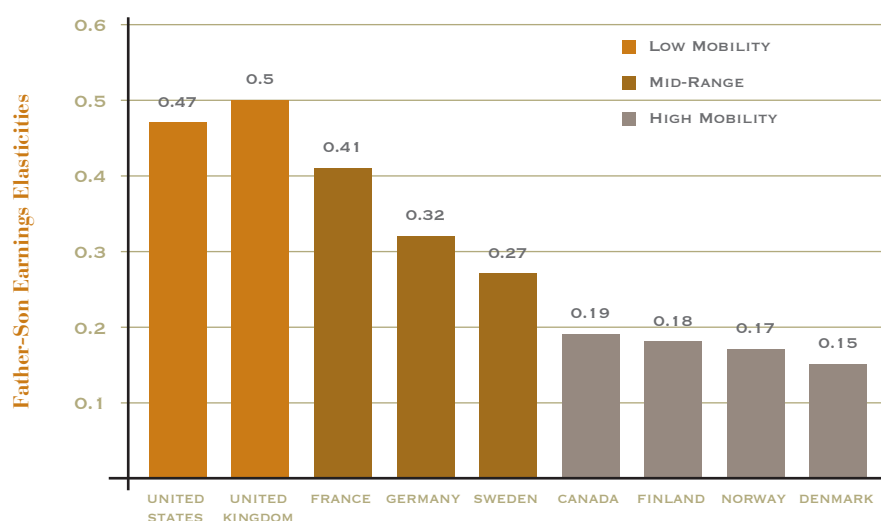
In their in-depth analysis, Jäntti et al. were able to probe beneath the surface and examine how the relationship between earnings of parents and children varies for individuals at different rungs on the economic ladder. Consistent with the mobility matrices presented in other chapters in this volume, they find there is more stickiness at the top and bottom of the earnings ladder in all countries. That is, men whose fathers have particularly low earnings are more likely than other men to have low earnings themselves, and men whose fathers are at the top of the earnings distribution are likely to attain that top status themselves.

**Starting at the bottom of the earnings ladder is more of a handicap in the United States than it is in other countries.**

What is new and striking about these findings, however, is a particularly high amount of stickiness at the bottom

FIGURE 2

**Sons' Earnings are More Closely Tied to Fathers' Earnings in the United States than in Canada and Much of Europe**



Source: Corak, 2006.

for American males. Specifically, men born into the poorest fifth of families in the United States in 1958 had a higher likelihood of ending up in the bottom fifth of the earnings distribution than did males similarly positioned in five Northern European countries—42 percent in the United States, compared to 25 to 30 percent in the other countries (see top half of Table 1).<sup>10</sup> Furthermore, in the United States, only 8 percent make the “rags to riches” climb from bottom to top rung in one generation, while 11 to 14 percent do so in other countries.<sup>11</sup> However, when making this comparison, it is important to note that the

Americans who climb from bottom to top in one generation are climbing further in absolute dollars than their counterparts in Europe, given the broad income dispersion in the United States. Still, according to this measure, rising on one’s own bootstraps is harder in the United States than it is in several northern European countries.

There also was stickiness at the top for American men: 36 percent remain at the top quintile. However, this finding was typical of all six countries studied; the percentage ranged from 30 to 37 percent across the countries, as shown in bottom half of Table 1.

Workers in the middle of the earnings distribution were fairly mobile across all countries, and daughters generally had more earnings mobility than sons, as well as fewer cross-country differences (data not shown).<sup>12</sup> The authors speculate that the high relative mobility of middle-class workers in the United States, combined with overall increases in the standard of living over time, may help explain the mobility assumptions held by many Americans. In addition, in an earlier paper, two of the authors summarize sociological evidence suggesting that occupational mobility appears to be higher in the United States than in Europe, even as economic data indicate lower economic mobility.<sup>13</sup>

TABLE 1

### Mobility Outcomes for Men Whose Fathers Are at the Bottom and Top of the Earning Distribution

PERCENT OF MEN WHOSE FATHERS WERE IN BOTTOM FIFTH OF THE EARNINGS DISTRIBUTION:

	REMAINED IN BOTTOM FIFTH	CLIMBED 1 TO 3 INCOME POSITIONS	CLIMBED TO TOP FIFTH
Denmark	*25 %	61 %	*14 %
Finland	*28	61	11
Norway	*28	60	*12
Sweden	*26	63	11
United Kingdom	*30	57	*12
United States	42	50	8

PERCENT OF MEN WHOSE FATHERS WERE IN TOP FIFTH OF THE EARNINGS DISTRIBUTION:

	DROPPED TO BOTTOM FIFTH	DROPPED 1 TO 3 INCOME POSITIONS	REMAINED IN TOP FIFTH
Denmark	*15 %	48 %	36 %
Finland	*15	50	35
Norway	*15	50	35
Sweden	*16	47	37
United Kingdom	11	60	30
United States	10	55	36

\* Statistically different from outcome in the United States. (Statistical testing was not done on the middle column). Row percentages may not total to 100 due to rounding. Sons in all six countries were born near 1958 (1957-1964 in the United States), and earnings of both fathers and sons were estimated near age 40. Sons’ earnings are generally measured between 1992 and 2002 (in 1995 and 2001 in the United States). Source: Jäntti et al., 2006, Table 4, p. 18 and Table 12, p. 33.

**The mobility literature does not tell us which country has the highest rates of income growth between fathers and sons.**

As noted above, the economic literature on cross-country comparisons of mobility focuses on relative mobility measures that examine the ranking of individuals in economic status relative to others in their own generation. Such measures do not factor in the important effects of economic growth. For many Americans, “getting ahead” may mean enjoying a higher standard of living than one’s parents, regardless of whether one is high or low in the income distribution.

Between 1973 and 2001, the U.S. economy expanded at an average rate

of 2.9 percent a year, a higher annual growth rate than most western European economies.<sup>14</sup> However, when measuring growth on a per person basis, there was little difference—both the United States and Western Europe experienced per capita growth of about 1.9 percent annually between 1973 and 2001.<sup>15</sup>

Still, one might wonder whether economic growth would lead American men to advance beyond men in other countries, in terms of absolute increases above what their fathers earned. The answer might vary depending on where men lie on the earnings distribution, given the uneven distribution of economic growth in the United States in recent years. It would be useful if future research on mobility in different countries compared absolute growth in earnings as well as relative mobility up and down the economic ladder.

### **INTERGENERATIONAL MOBILITY IS LOWER IN SOME DEVELOPING COUNTRIES**

The influence of family background may be even higher in some developing countries than it is in the United States and other rich nations, although the data are scarce and the evidence is still emerging. Parental economic status is more influential in Ecuador and Peru than in the United States,

according to a careful comparative study by Grawe.<sup>16</sup> Brazil is a third Latin American country with low relative mobility, with the elasticity between fathers' and sons' earnings estimated at about 0.7, considerably higher than the levels shown in Figure 2.<sup>17</sup> Other developing countries appear more similar in mobility levels to the United States. For example, Grawe estimated that parents in Pakistan and Nepal provide their sons with an earnings advantage that appears to be within the range of that transmitted to sons in the United States.<sup>18</sup>

Note that mobility statistics for less developed countries are even more uncertain and difficult to estimate than those presented in Figure 2 because developing countries do not have longitudinal surveys spanning three or more decades. Parents' income therefore has to be estimated using various extrapolations. These cross-country comparisons are further hampered by such measurement challenges as comparing studies conducted independently by researchers using different approaches, varying estimates for individual countries, and differences in the ages at which earnings are measured.<sup>19</sup> Still, the available evidence suggests that while the United States ranks low in mobility when compared with many European countries, it ranks high compared with some less developed countries, including at least three countries in Latin America.

### **THE UNITED STATES RESEMBLES OTHER COUNTRIES IN SHORTER-TERM MOBILITY MEASURES**

While most of this volume focuses on mobility over generations, this review of cross-country comparisons concludes by examining intragenerational mobility—mobility within a lifetime.

#### **The United States falls in the mid-range for rates of mobility over 5- or 10-year periods.**

A number of studies have found that the United States has fairly similar rates of relative mobility to other countries when measured over a 5- to 10-year period. For example, a seven-country study by the Organization for Economic Cooperation and Development (OECD) found the United States was in the middle with regard to 5-year mobility patterns between 1986 and 1991. About half (49 percent) of full-time workers in the United States were in the same relative place in the earnings distribution after five years, with the other half moving up or down one or more quintiles. The percentage who stayed in the same place in the seven European countries ranged from 44 percent in Finland to 57 percent in France.<sup>20</sup> Another study, by Mercedes Sastre and Luis Ayala, found that the United States fell into the intermediate range of income mobility in a study tracking income mobility between 1992 and 1996 in the United States and five European countries.<sup>21</sup> Earlier studies using data from the 1980s

also found overall similarities in mobility patterns over 5- and 10-year periods, in studies comparing the United States to Germany or to Scandinavian countries.<sup>22</sup>

The two studies comparing workers in Europe and the United States also examined how much earnings and income increased in absolute terms over 5-year periods. The OECD study found that full-time workers in the United States generally experienced more absolute growth in earnings and income than their European counterparts. However, low-paid full-time workers in the United States had less earnings growth between 1986 and 1991 than low-paid full-time workers in the European countries. Sastre and Ayala also found a mixture of good and bad news. Rates of income and earnings growth between 1992 and 1996 were higher in the United States than in other countries for middle-income individuals, but lower for low-income individuals.<sup>23</sup> Again, the cross-country comparisons suggest an American pattern of low mobility at the bottom of the income ladder.

## CONCLUSION

The findings from cross-country research challenge the traditional view of the United States as a land with more mobility and opportunity than other countries.

While cross-country comparisons of relative mobility rely on data and methodologies that are far from perfect, a growing number of economic studies have found that the United States stands out as having less, not more, intergenerational mobility than do Canada and several European countries. American children are more likely than other children to end up in the same place on the income distribution as their parents. Moreover, there is emerging evidence that mobility is particularly low for Americans born into families at the bottom of the earnings or income distribution.

Though based on shakier evidence, mobility rates in less developed countries appear to be lower than in the United States in some instances, but not significantly different in others.

There are fewer differences between the United States and European countries when examining mobility within a worker's career, as opposed to the transmission of economic status between parents and children. Overall, American workers seem as likely as European workers to move up or down the earnings ladder in a 5- or 10-year period. However, there is again evidence of a troubling pattern of less upward mobility for Americans starting at the low end of the economic ladder.

The existing literature does not speak to the opportunities for income growth across the generations or the economic assimilation of immigrants in different countries. Nor does this review consider how cross-country differences in income distributions, labor market and compensation policies, educational systems, and other institutional factors may contribute to the observed differences in mobility. These are all important topics for further research.

# NOTES

<sup>1</sup> Alexis de Tocqueville, *Democracy in America*, cited in Ferrie, 2005.

<sup>2</sup> The 27 countries participating in the 1999 Social Inequality III module of the International Social Survey Program (ISPP) include Australia, Austria, Bulgaria, Canada, Chile, Cyprus, Czech Republic, Denmark, France, Germany, Great Britain, Hungary, Israel, Japan, Latvia, New Zealand, Northern Ireland, Norway, Philippines, Poland, Portugal, Russia, Slovakia, Slovenia, Spain, Sweden, and the United States. The polling data were collected in 1998–2001 (2000 in the United States); more recent data are not available.

<sup>3</sup> The most common statistical measure of relative mobility, intergenerational elasticity (IGE), comes from a linear regression equation estimating the relationship between children's and parents' earnings (or income), with both child and parental earnings expressed in logarithmic measures. It measures the percentage difference in expected child earnings associated with a one percent difference in parental earnings. The *earnings* elasticity measure is calculated and interpreted in the same way as the *income* elasticity measure reported in previous chapters. To interpret the IGE, imagine a group of fathers whose earnings are 80 percent higher than average: if they are in a society with an IGE of 0.5, then their children would, on average, have earnings 40 percent higher than average (80 percent  $\times$  0.5). And at the extreme of an IGE of 0, any large group of children would have average earnings unrelated to the earnings of their parents.

<sup>4</sup> Estimates are quite sensitive to such decisions as the age at which earnings are measured and whether earnings are measured over one year or averaged over multiple years.

<sup>5</sup> As discussed in "Immigration: Wages, Education, and Mobility" another chapter in this volume, earnings data suggest that second-generation immigrants to the United States close about half the gap between their parents' earnings levels and median earnings for native-born Americans. The intergenerational mobility studies reviewed in this report are silent on the question of whether immigrants to other countries have more or less mobility across generations than is observed in the United States.

<sup>6</sup> With an earnings elasticity of .41 (and a range of reasonable estimates ranging from 0.35 to 0.45) France could be classified as a low-mobility country if one used 0.4 to 0.5 as range for identifying lower-mobility countries: see Corak, 2006. More generally, there is a range of estimates for each country, and so data and methodological refinements could lead to some adjustment to the precise ranking shown in Figure 2.

<sup>7</sup> Piraino, 2007; Mocetti, 2007; d'Addio, 2006, p. 33 (drawing on Hugalde for Spain); Leigh, 2007.

<sup>8</sup> Jäntti et al., 2006. To increase consistency, the team focused on a cohort of sons born near 1958 (the exact year differed by country) and measured fathers' earnings in one year (when the son was age 16 if possible) and the sons' earnings as an adult in two years (as close to ages 33 and 41 as possible). Some cross-country variation remained. One notable difference is that in the United States, sons' position in the earnings distribution was compared to parents' position in the family income distribution, whereas the other five countries had earnings information for both sons and fathers. However, husbands' earnings were a large component of family income for most families in 1978.

<sup>9</sup> The intergenerational elasticities for father-son earnings in this study were .52 for the United States, .31 for the United Kingdom, .26 for Sweden, .17 for Finland, .16 for Norway and .07 for Denmark. The six-country study included a comparison of daughters' earnings to fathers' earnings; cross-country differences were smaller, but again the United States had less mobility than the other countries.

<sup>10</sup> Jäntti et al., 2006. The authors report that stickiness at the bottom among males persists in the United States, even when excluding black and Hispanic families. The percentage of the non-Hispanic whites remaining at the bottom is 38.1 percent.

<sup>11</sup> A somewhat smaller (6 percent) estimate of the climb from "rags to riches" is presented in the chapter on "Economic Mobility of Families Across Generations." The two estimates are based on different data sets, population groups, and time periods: The 6 percent estimate is based on Panel Study of Income Dynamics family income data for men and women born in 1950–1968 while the 8 percent estimate is based on National Longitudinal Survey of Youth earnings data for men born between 1957 and 1964.

<sup>12</sup> See "Economic Mobility of Men and Women" for further discussion of the fact that while men and women in the United States have similar rates of overall income mobility, women have more earnings mobility, partly due to their more intermittent participation in the labor force.

<sup>13</sup> Björklund and Jäntti, 2000. The authors contrast the growing body of economic literature, which is finding that the United States ranks low compared to European countries in terms of earnings and income mobility, with the considerable body of sociological research, which finds that the United States ranks fairly high in terms of both class and occupational mobility (e.g., sons are less likely to hold the same occupation as their fathers in the United States than in Europe). This apparent contradiction suggests that the association between fathers and sons in earnings levels in the United States is partly driven by unobserved factors other than occupation. The authors also argue that both sociologists and economists could benefit from greater study of each other's approaches to the study of intergenerational mobility.

<sup>14</sup> The average growth rate in Western Europe was 2.2 percent overall, and Norway was the only country in Table 1 that grew at a faster rate (3.3 percent) than the United States. Maddison, 2003, Table 8b, p. 640.

<sup>15</sup> Maddison, 2003, p. 643.

<sup>16</sup> Grawe, 2004. Grawe estimated the intergenerational earnings elasticity between fathers and sons in Peru and Ecuador to be 0.67 and 1.13, respectively, measured at the median.

<sup>17</sup> Dunn, 2007; and Ferreira and Veloso, 2003.

<sup>18</sup> Grawe, 2004. The estimates of 0.46 and 0.44 for Pakistan and Nepal are based on Table 4.8, which excludes business and farm income.

<sup>19</sup> Corak, 2004, pp. 17–19.

<sup>20</sup> OECD, 1996. See especially chapter 3, "Earnings Inequality, Low-Paid Employment and Earnings Mobility."

<sup>21</sup> Sastre and Ayala, 2002. The five European countries were France, Germany, Italy, Spain, and the United Kingdom.

<sup>22</sup> Burkhauser, Holtz-Eakin, and Rhody, 1997; and Aaberge, Björklund, Jäntti et al., 2002.

<sup>23</sup> Low-paid was defined as below 65 percent of median earnings in the OECD study; low-income was defined as below 75 percent of mean income in the study by Sastre and Ayala, 2002. In both studies, absolute gains were measured relative to percentages of median or mean income in each country, rather than absolute dollar levels.



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# IV WEALTH AND ECONOMIC MOBILITY

BY RON HASKINS, THE BROOKINGS INSTITUTION

**T**he growing concern about economic inequality voiced by scholars, policy makers, and journalists has been addressed primarily to inequality of income. And with good reason: as noted throughout this volume, studies confirm that over the last three decades there has been a marked rise in income inequality in the United States.

In tracking trends in economic inequality, less attention has been given to inequality of wealth and the relation of wealth to economic mobility. Yet any full consideration of economic well-being, inequality, or economic mobility must include careful attention to wealth.

Wealth is a vital component of family economic well-being and has the potential to contribute to economic mobility. Wealth often produces a flow of cash that families can use for current consumption. Wealth can also provide collateral for loans to boost consumption, make investments in businesses or human capital development, or provide security during periods of unemployment or other disruptions of income. In addition, wealth can provide security

for retirement. It can also be passed to children or others. Parents can use their wealth to boost their children's prospects and well-being; they can increase their children's human capital by paying for higher education or helping them invest in business ventures or other enterprises. Similarly, negative wealth or debt is a major determinant of well-being. In the extreme, persistent debt can lead to bankruptcy, which not only results in loss of most assets, but usually constitutes a formidable barrier to future credit.

Understanding wealth is important to fully comprehend economic mobility in the United States, especially the effect of wealth on economic mobility across generations. Because the incomes of parents and children are highly correlated, it is important to ask whether there is a similar correlation between the wealth of parents and their children and, if so, what the modes of wealth transmission might be.

## THE TOOLS FOR UNDERSTANDING WEALTH

Wealth is assets minus debt. Assets are typically understood as having both a financial dimension (checking

accounts and stocks and bonds) and a non-financial dimension (real estate holdings, businesses, jewelry, art, boats, and vehicles). Debt includes home mortgages, loans against real estate, credit card balances, and installment loans. Retirement assets that are not liquid are not included in most calculations of family wealth,<sup>1</sup> nor is the value of future payments, such as those from Social Security and most pension plans.

There are two primary sources of information about wealth in the United States. The first and most representative of the entire U.S. population is a triennial survey conducted since 1989 by the Board of Governors of the Federal Reserve Board. The Survey of Consumer Finances (SCF) includes questions about the income, assets, and debt of around 4,500 randomly selected families.<sup>2</sup> A second survey is especially useful in tracing changes in wealth across generations. The University of Michigan's Panel Study of Income Dynamics (PSID) has been following an original sample of 5,000 American families and their offspring (and their families when they become adults) since 1968.<sup>3</sup>

## TRENDS IN FAMILY WEALTH AND WEALTH DISTRIBUTION

From 1989 through 2004, the growth of wealth in the United States was strong but unevenly distributed (see Table 1). SCF data show that total wealth doubled over this period, growing from \$25.9 trillion to \$50.2 trillion.<sup>4</sup> However, there were large differences between families in wealth accumulation.

At every position in the distribution, net worth improved between 1989 and 2004. But, net worth at the 10th percentile was minuscule. Though wealth increased at the 10th percentile, families near the bottom of the wealth distribution had great difficulty accumulating assets that exceeded their debts and their net worth typically hovered around zero.

By contrast, families at the top did not have any difficulty accumulating wealth. Figure 1 plots the percentage of total U.S. wealth owned by families occupying various sections of the wealth distribution for selected years between 1989 and 2004. During this time, the bottom 50 percent of families controlled an average of around 3 percent of personal wealth in each year. By contrast, the top 1 percent of families controlled 30 percent or more of the wealth each year. Though its share of wealth peaked in 1995 and then declined slightly, over the entire period from 1989 to 2004 wealth

held by the top 1 percent increased by about 3 percentage points—an amount roughly equal to the entire wealth owned by the bottom half of the distribution. Combining the three sections for families above the 90th percentile shows that these 10 percent of families controlled about 70 percent of the wealth in a typical year. The remaining 30 percent of wealth was distributed among 90 percent of families.

## GROWTH AT THE TOP OF THE WEALTH DISTRIBUTION

The growth of wealth at the top of the distribution is confirmed in computations performed by Edward Wolff of the Levi Institute of Economics in New York City, who counted the number of households worth at least \$1 million, \$5 million, and \$10 million in the SCF in each of the survey years between 1989

TABLE 1

Average Wealth of Households at 10th, 25th, Median, 75th, and 90th Percentiles of the Distribution of Wealth, Selected Years 1989-2004 (Thousands, 2004 Dollars)

WEALTH PERCENTILE	YEAR					
	1989	1992	1995	1999	2001	2004
10th	*	*	0.1	*	0.1	0.2
25th	8.1	9.6	12.3	11.5	13.6	13.3
Median	68.8	65.3	70.8	83.2	91.7	93.1
75th	216.2	194.6	197.8	242.2	301.7	328.5
90th	539.5	470.2	469.0	572.9	782.2	831.6

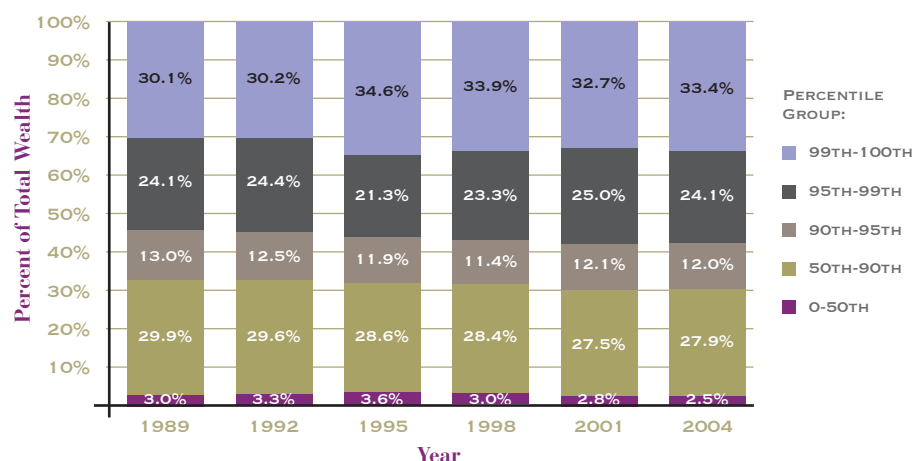
Note: The means for the respective years from 1989 through 2004 are 277.9, 246.1, 260.7, 328.5, 423.9, and 448.0.

\* < 0.1

Source: Kennickell, 2006, p. 9.

FIGURE 1

Percent of Wealth Held by Various Percentile Groups, Selected Years 1989-2004



Source: Kennickell, 2006, p. 11.

TABLE 2

Number of Millionaires and Multimillionaires,  
Selected Years 1989–2004NUMBER AND INDEX OF HOUSEHOLDS  
WITH NET WORTH EXCEEDING:

YEAR	TOTAL NUMBER OF HOUSEHOLDS (THOUSANDS)	\$1 MILLION		\$5 MILLION		\$10 MILLION	
		NUMBER (THOUSANDS)	INDEX*	NUMBER (THOUSANDS)	INDEX*	NUMBER (THOUSANDS)	INDEX*
1989	93,009	3,024	3.25	297	0.32	65	0.07
1992	95,462	3,104	3.25	277	0.29	42	0.04
1995	99,101	3,015	3.04	474	0.48	190	0.19
1998	102,547	4,783	4.66	756	0.74	239	0.23
2001	106,494	5,892	5.53	1,068	1.00	338	0.32
2004	112,107	6,466	5.77	1,120	1.00	345	0.31

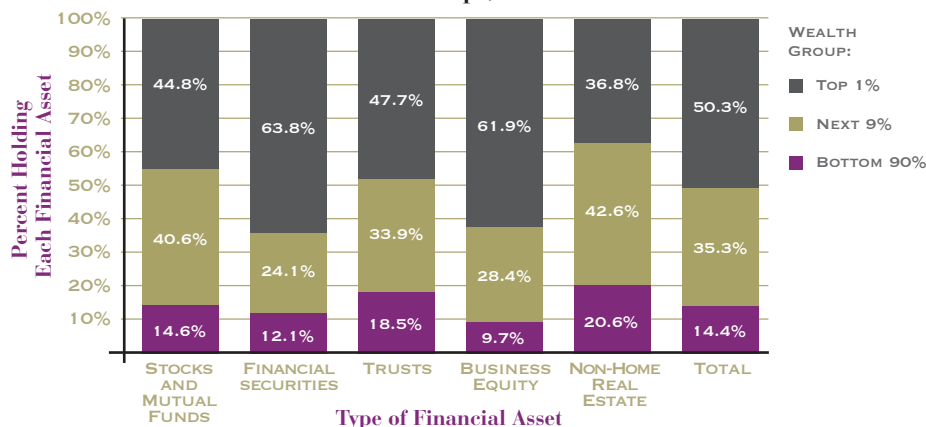
\*The index is computed by dividing the number of households with net worth of \$1 million, \$5 million, or \$10 million in each year by the total number of households in that year and multiplying by 100.

Source: Wolff, 2007, p. 43.

and 2004. Table 2, based on Wolff's findings, shows that the growth in millionaires of various degrees is consistent with the data on changes in the entire wealth distribution shown in Table 1 and Figure 1.

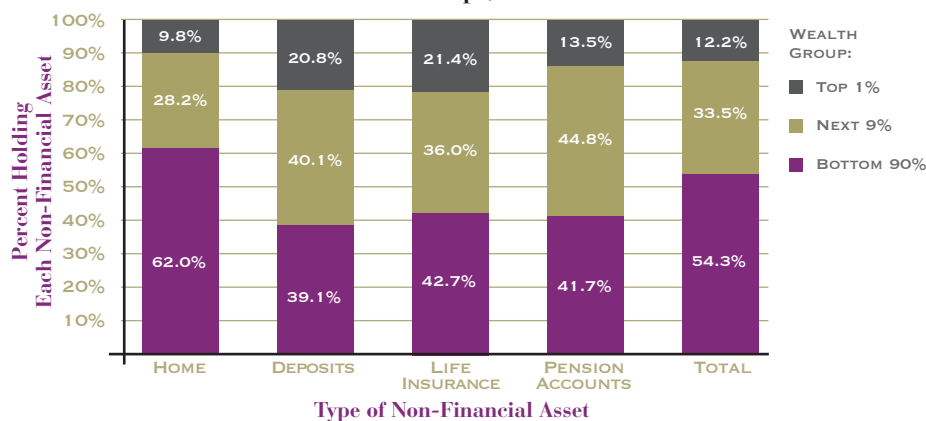
If the rise in millionaires over the period is impressive, more than doubling in raw numbers and increasing by more than 75 percent as a percentage of the population (from an index of 3.25 to 5.77), the rise in households worth \$10 million or more is more impressive still, from an index of 0.07 to 0.31, increasing more than fourfold.

FIGURE 2A

Percent of Several Financial Assets Held by  
Various Wealth Groups, 2004

Source: Wolff, 2007, p. 48.

FIGURE 2B

Percent of Several Non-Financial Assets Held by  
Various Wealth Groups, 2004

Source: Wolff, 2007, p. 48.

## DISTRIBUTION OF ASSETS

Assets, the raw material of wealth, consist primarily of stocks and other financial instruments and non-financial property, especially housing.<sup>6</sup> Not surprisingly, both types of assets are unequally distributed, but financial assets much more so.

Based on an analysis of SCF data by Wolff, Figure 2a describes the financial and Figure 2b describes the non-financial assets controlled by the top 1 percent, the next 9 percent, and the bottom 90 percent of the wealth distribution in 2004.<sup>5</sup> The top 1 percent of households controlled an average of 50 percent of all financial assets and over 60 percent of both financial securities and business equity (Figure 2a). Adding the top two sections of the total bar graph shows that the top 10 percent controlled 85 percent

of all financial assets, leaving around 15 percent for the bottom 90 percent of the distribution.

In contrast to financial assets, non-financial assets are more equally distributed (Figure 2b). Even so, the top 10 percent controlled nearly half the assets. The most equally distributed asset was housing, with the bottom 90 percent controlling over 60 percent of housing value and the top 1 percent controlling less than 10 percent.

## HOUSING AND FAMILY WEALTH

Housing is central in accounting for the wealth of most Americans. Table 3 illustrates this point by showing the percentage of families in selected income groups that own their home and the median value of the homes they own. Although they own few stocks and other assets, over 40 percent of the bottom quintile of families own their homes and the median value of their homes is \$70,000.

Examining the income distribution in ascending order, we see that the likelihood of home ownership increases systematically, rising from 40 percent of families in the bottom quintile to 95 percent of families in the top decile of income. The value of homes increases similarly, reaching a median of \$225,000 for families in the ninth decile and \$450,000 for families in

the top decile. Thus, consistent with all the data on wealth and assets examined here, there is a substantial increase in the likelihood of owning a home and in the value of the home at the higher end of the income distribution.

Still, a bigger share of families own their home than any other asset, and nearly all the wealth of many families is tied up in their homes. In this sense, housing is probably the most important bulwark against rising inequality in the United States. However, recent difficulties in housing credit are creating serious problems with home ownership in the bottom of the distribution.<sup>7</sup>

## NEGATIVE WEALTH: DEBT AND BANKRUPTCIES

As the 2007 crisis in housing credit illustrates, debt plays two roles in family wealth. Some debt, especially a home mortgage, is often considered good debt because families are purchasing

a place to live and making a long-term investment simultaneously. However, a lot can go wrong with both homes and home mortgages, especially variable interest mortgages: home owners can have an unexpected loss of income, the housing market can decline leaving home owners with more debt than the market value of their house, variable interest rates can rise more than expected, and owners can misjudge the difficulty of maintaining their mortgage payments over the long term. Nearly all of this happened in the recent housing finance crisis. Nonetheless, investment in housing works out well for most families.

There is a fine line between ensuring that low-income families have access to credit to purchase a home and luring families into borrowing under terms that put them at excessive risk. Where to draw this line will always be a problem. Most Americans would probably prefer a modest level of bankruptcy rather than less

TABLE 3

Housing Ownership and Value by Income Group, 2004

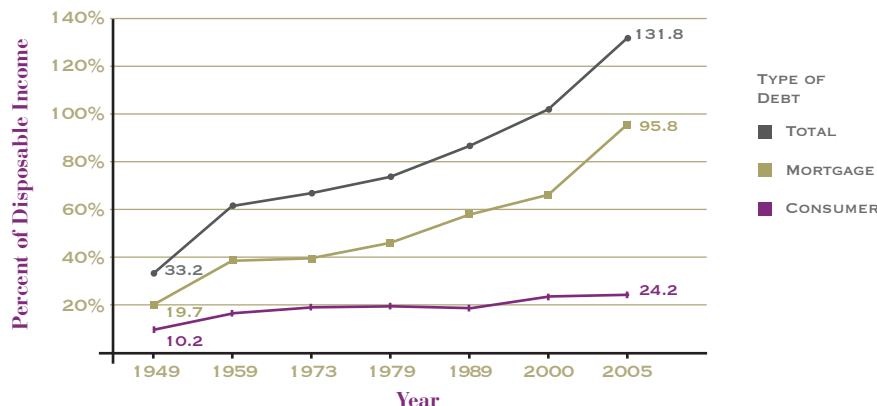
INCOME GROUP	PERCENTAGE OF FAMILIES THAT OWN HOMES	MEDIAN HOME VALUE (\$ THOUSANDS)
Lowest Quintile	40.3%	70
Second Quintile	57.0	100
Middle Quintile	71.5	135
Fourth Quintile	83.1	175
Ninth Decile	91.8	225
Top Decile	94.7	450

*Note: The median value is based on the houses owned by families and does not include zeroes.*

*Source: Bucks et al., 2006, p. A22.*

FIGURE 3A

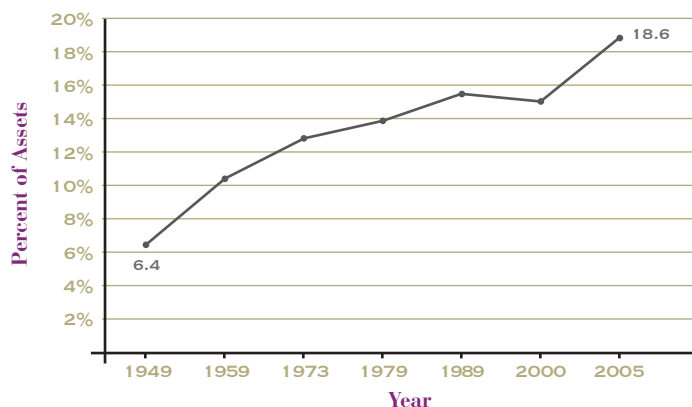
## Household Debt as Percent of Disposable Income, Selected Years 1949–2005



Source: Mishel et al., 2007, p. 271.

FIGURE 3B

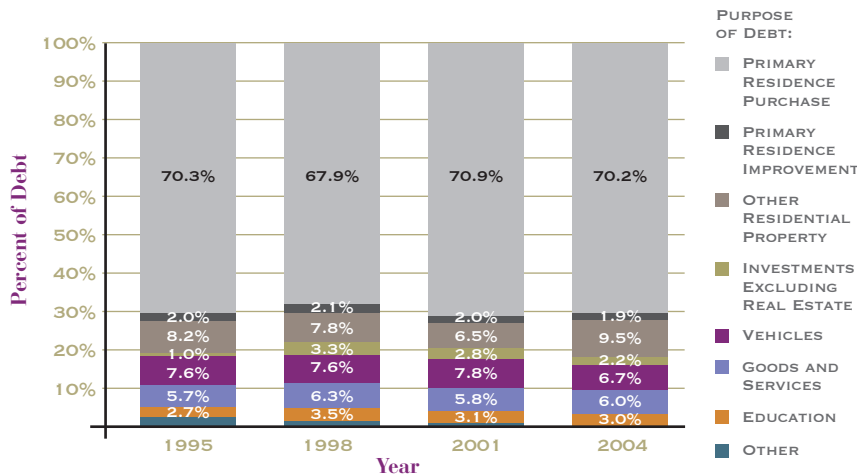
## Household Debt as a Percent of Assets, Selected Years 1949–2005



Source: Mishel et al., 2007, p. 271.

FIGURE 4

## Percent of Debt Incurred for Various Purposes, Selected Years 1995–2004



Source: Bucks et al., 2006, p. A32.

bankruptcy at the cost of maintaining credit markets that are so tight that low-income families are unable to purchase homes.

Non-mortgage debt, especially of the high-interest variety like credit cards, can also get consumers in over their heads and lead to financial crisis and even bankruptcy. Figure 3a provides a summary of total debt, mortgage debt, and consumer credit debt expressed as a percentage of disposable personal income in selected years since 1949.

There are almost no exceptions to the pattern of continuous increases in debt of all types since 1949. Total debt has increased nearly fourfold over the period. As shown in Figure 3b, even expressed as a percentage of all household assets, which were also rising during this period, debt rises virtually every year.

Although Figures 3a and 3b show that indebtedness has increased in recent years, the SCF seems also to show that Americans are not borrowing primarily to purchase consumer goods. Figure 4 summarizes the purposes for which families took on debt in selected years between 1995 and 2004.

Note the stability across the decade in the reasons families borrow money. In every year, about 70 percent of family debt is incurred to purchase a home and another 2 percent to make home improvements. In most years, about 8 percent or 9 percent of debt is assumed to purchase residential property other than



the primary residence. In all probability, a sizable number of these purchases are made as investments. About 3 percent of borrowed money in each year is used to invest in education and another 7 or 8 percent to purchase vehicles. Thus, families are incurring debt primarily to buy their homes, purchase cars, or make investments in property or human capital. Only a little over 5 percent of debt is incurred to buy consumer goods and services, and this figure has been stable for a decade.

### DEBT AND INCOME LEVEL

Figure 5 summarizes the types of debt incurred in 2004 by families of various income levels. Here we see a close relationship between a family's economic status as measured by its income and the likelihood it has taken on debt. Only about half the families with incomes in the bottom quintile have any debt at all, as compared with about 70 percent of families in the second quintile and

between 85 percent and 92 percent of families above the second quintile.

More than half of all families (54 percent) have no credit card debt, and less than 30 percent of families in the bottom quintile have credit card debt. The data in Figure 5 refute the notion, often expressed in the media, that Americans are taking on mountains of debt in order to support consumer buying sprees.

Nonetheless, some families do incur excessive debt. The rapid rise in debt held by some American households could prove troublesome in the long run. In fact, as shown in Figure 6, bankruptcies increased in most years between 1980 and 2003 before falling dramatically after 2005.

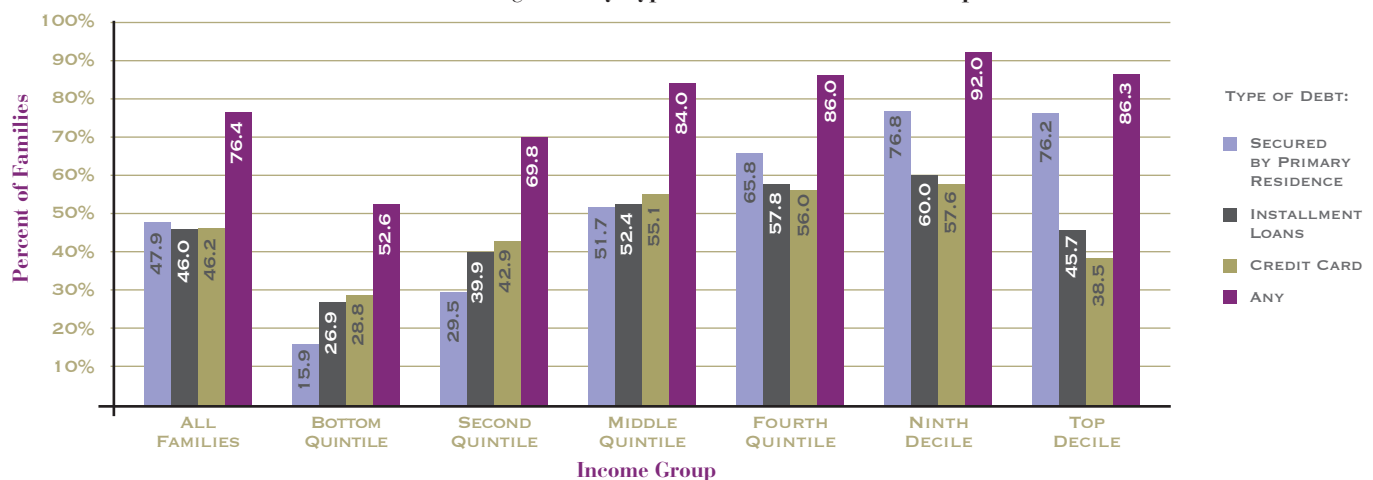
The steep decline after 2005 followed passage of federal bankruptcy legislation making it more difficult for individuals to declare bankruptcy. Because the legislation was controversial and took

almost a decade for Congress to enact, at least some of the rise in bankruptcies during this period can be attributed to individuals trying to file before Congress enacted stricter bankruptcy laws. The decline in bankruptcies does not mean that families now have less difficulty with excessive debt than in the past. Ironically, they may have more difficulty because the stricter bankruptcy law does not allow them to liquidate debt as easily as was once possible.

Families likely to experience trouble with excessive debt are concentrated at the bottom of the income distribution. Figure 7 shows the relationship between income and high debt in 2004. High debt is debt that requires total debt service payments that equal or exceed 40 percent of income, a widely accepted threshold above which households begin occupying dangerous territory. The relationship between income and high debt shows a clear pattern: the lower the income, the higher the rate

FIGURE 5

Percent of Families Holding Debt by Type of Debt and Income Group, 2004



Source: Bucks et al., 2006, p. A28.

of excessive debt. Whereas only 2 percent of households in the top income quintile have high debt ratios, almost 30 percent of households in the bottom quintile have problematic levels of debt.

## WEALTH MOBILITY ACROSS GENERATIONS

How wealth is distributed in the current generation is important,

but equally important is whether the winners in a given generation can pass their winnings on to their children or use their fortunes to boost the economic prospects of their children.

When Americans talk about equal opportunity, they usually mean that everyone should have a shot at high earnings as well as the chance to accumulate the financial and non-financial components of wealth that

are the symbols of economic success and the foundation of long-term economic security.

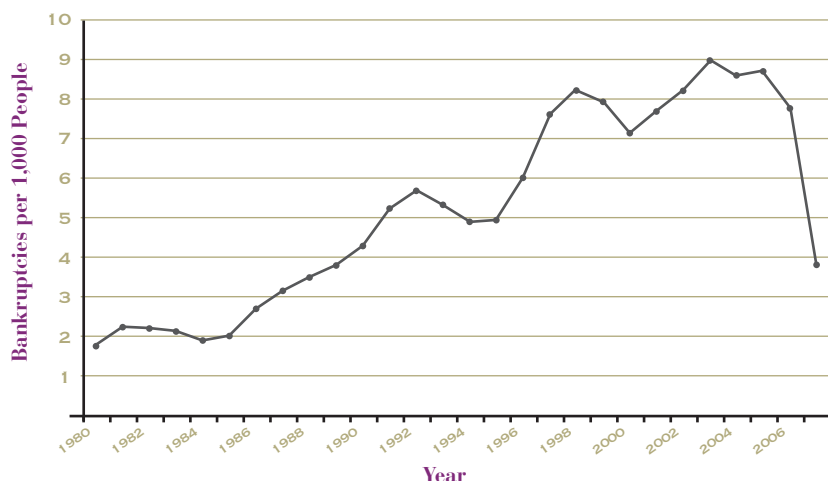
As we have seen elsewhere in this volume, there is a substantial relationship between the family income of parents and children. The most recent evidence indicates that about half the difference in income between families persists into the second generation.<sup>8</sup> Is the wealth of parents and their children similarly associated?

## Relationship between Parental and Adult Child Wealth

A first-order question about wealth mobility is whether there is a relationship between the wealth of parents and that of their children. The tool for producing a comprehensive picture of wealth transmission between parents and children is a measure called “intergenerational wealth elasticity.”<sup>9</sup> This number tells us “what percentage variation to expect in the child’s [wealth] in connection with a percentage variation in the parents’ [wealth].”<sup>10</sup> For example, if intergenerational wealth elasticity were 0.4, then if the wealth of a given set of parents were 50 percent above the average of their generation, their children’s wealth would be 0.4 times 50 percent, or 20 percent, above the average wealth of their generation.<sup>11</sup> Elasticities of between 0.4 and 0.5 indicate that the wealth of children is strongly correlated with the wealth of their parents and that it could

FIGURE 6

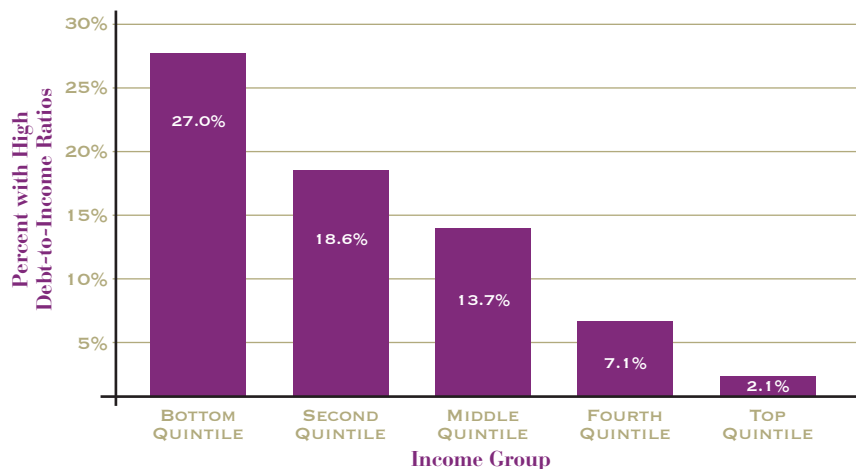
**Bankruptcy Rates per 1,000 People  
between Ages 18 and 65, 1980–2007**



Source: James Sherk of the Heritage Foundation using data from the Administrative Office of the U.S. Courts.

FIGURE 7

**Percent of Households with Debt-to-Income Ratios  
Greater than 40 Percent by Income Quintile, 2004**



Source: Mishel et al., 2007, p. 277.

take several generations for the influence of wealth on subsequent generations to disappear.<sup>12</sup> Recent studies have found wealth elasticities between .32 and .50.<sup>13</sup>

Another tool for measuring the intergenerational correlation of wealth is the wealth transition matrix. As illustrated in Figure 8, the matrix divides the wealth distribution of parents and their adult children into five groups of equal size and then locates each parent-adult child pair in one cell of the matrix. Figure 8 shows that adult children tend to fall in the same or adjacent wealth quintiles as their parents, thereby indicating a positive correlation in wealth between the generations.

As with the income transition matrix discussed in Chapter I “Economic Mobility of Families Across Generations,” Figure 8 shows that there is “stickiness” at both tails of the wealth distribution, meaning that the greatest wealth similarity between parents and offspring is at the extremes of the distribution. Thirty-six percent of the adult children are in the top quintile just as their parents were at a similar age, and 36 percent of the adult children are in the bottom quintile just as their parents were. Only 7 percent of children born to parents in the bottom wealth quintile make it to the top wealth quintile as adults, much like the 6 percent of those born to parents in the bottom income quintile end up in the top income quintile in adulthood (see Figure 4, Chapter I).

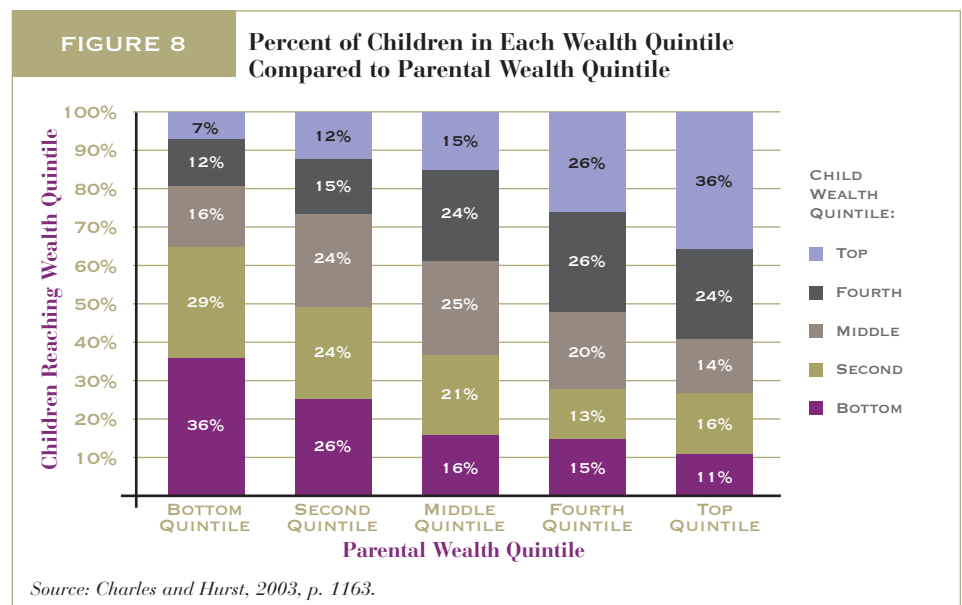
Despite the clear relationship between wealth in the two generations, there was nonetheless movement by adult children to wealth quintiles other than the one occupied by their parents. Perhaps most notable is that nearly 35 percent of the adult children of parents in the bottom wealth quintile moved up to the top three quintiles, while 41 percent of adult children with parents in the top quintile moved down to the bottom three quintiles. As pointed out by wealth researchers at the University of Michigan and the University of Chicago, these results imply a “much greater” level of intergenerational fluidity than “suggested by recent accounts in the popular press.”<sup>14</sup>

### Sources of Wealth: The Role of Gifts and Inheritances

As the data on wealth transmission suggest, wealthy parents tend to have wealthy adult children and poor parents tend to have poor adult

children, but there is nonetheless movement between generations up and down the wealth distribution. But what is the source of wealth in the second generation? Parents could help their children achieve wealth by making investments in their development or by giving them money directly. By contrast, adult children could save money, make investments, start businesses, take risks, or engage in other enterprising activities that allow them to build their own wealth.

Although no existing data source allows us to completely separate each of these possible sources of wealth in the second generation, it is possible to estimate how much wealth in the second generation comes from transfers from parents or others and how much comes from the efforts of the children themselves. This information is important because to the extent that transfers from parents or others comprise most wealth accumulation in the children’s



generation, wealth mobility could be tightly circumscribed.

**Extent of wealth transfers.** Wolff's analysis of the SCF data for selected years between 1989 and 1998 shows that between 20 and 24 percent of all households received some type of wealth transfer at some time.<sup>15</sup> Thus, the majority of families do not receive substantial gifts or inheritances from their parents or others. Families that do receive wealth transfers are the fortunate recipients of a kind of windfall financial advantage, but most families obtain their wealth through their own enterprising activities.

**Value of wealth transfers.** Wolff's analysis of the SCF shows consistency in the average value of transfers across the years, with a low mean transfer of \$50,000 in 1992 and a high of \$54,500 in 1998.<sup>16</sup> Table 4 describes the contribution of these transfers to the wealth of households with various levels of wealth (including transfers) in 1998.

As might be expected, although the overall probability of a given household receiving wealth transfers was a little more than 20 percent, the probability varied both with the amount of wealth transferred and the total wealth of the households.

Only about 10 percent of families with wealth of under \$25,000 received transfers while about 45 percent of households with wealth of over \$1 million received transfers. Similarly, the mean value of wealth transferred increased with household wealth. Of families with less than \$25,000 in wealth, the relatively few that received transfers got about \$53,000 on average. However, families with wealth of \$1 million and over received transfers averaging more than \$1.3 million.

Surprisingly, despite the fact that the amount of wealth transferred is greater for households with more wealth, expressing transferred wealth

as a percentage of total household wealth shows an inverse relationship between total household wealth and the amount of wealth transferred. In percentage terms, households with relatively less wealth have a greater boost in wealth because of the wealth transfers they receive.

For example, families in the wealth category of \$25,000 to \$49,999 receive transfers that amount to more than 45 percent of their total wealth, even though the mean amount transferred was only about \$82,000. But families with total wealth of over \$1 million, that on average received transfers in excess of \$1.3 million, experienced only about a 17 percent boost in total wealth from these very large transfers. A relatively small wealth transfer provides a bigger boost to low-wealth families than a relatively big transfer provides to relatively wealthy families.<sup>17</sup>

**Timing of wealth transfers.** Wealth transfers from parents are more useful to adult children if they receive the transfers before they themselves grow old. With a \$50,000 gift from a parent, a 30-year-old starting a family can make investments in the continued well-being of the family. By contrast, the 60-year-old close to retirement is likely to be in a better economic position already. Figure 9, based on new analyses of the SCF by Desmond Toohey of the Urban Institute, shows the percentage of families, divided into three age groups, that receive transfers of various types.

TABLE 4

Percent of Households with Wealth Transfers and Amount of Transfers, 1998

WEALTH CATEGORY	PERCENT OF HOUSEHOLDS WITH TRANSFERS	MEAN AMOUNT OF WEALTH TRANSFER*	TRANSFERS AS PERCENT OF TOTAL WEALTH
Under \$25,000	9.9 %	52.7	** %
25,000 - 49,999	20.0	82.4	45.5
50,000 - 99,999	19.6	100.8	27.1
100,000 - 249,999	26.0	120.5	19.6
250,000 - 499,999	31.7	180.4	16.5
500,000 - 999,999	35.5	427.4	22.6
\$1,000,000 and over	44.9	1,325.9	17.1

\* In thousands of 1998 dollars. Zeroes are not included in calculations of means.

\*\* The average level of wealth in the under \$25,000 wealth group is so small that the transferred wealth is almost 10,000 times greater than the average wealth.

Source: Wolff, 2002, p. 262.

Not surprisingly, both the percentage of families that receive a transfer and the average amount of the transfer increases substantially with age. While only 12 percent of the families under age 30 had received a transfer of any type, over 25 percent of those over age 50 had received them. Older adult children are more likely to have received transfers than young adult children because the majority of transfers are given as inheritances at the parent's death and not as gifts while the parent is still alive. Adult children are much more likely to receive money from inheritances than from either trusts or from gifts during their parents' lifetime.

The amount of wealth transferred from parents to adult children in all the categories identified in the SCF are substantial, ranging from nearly \$43,000 to over \$2 million with a mean of around \$110,000 for those under 30, \$131,000 for those between ages 30 and 50, and

\$275,000 for those over age 50.<sup>18</sup> Trusts are by far the most valuable, but they are also the most infrequent (Figure 9). The general conclusion from Figure 9 is that although only between a fifth and a quarter of families receive wealth transfers, those who do get a lot of money, much of which comes during or after middle age.

### OTHER FACTORS ASSOCIATED WITH WEALTH TRANSFERS

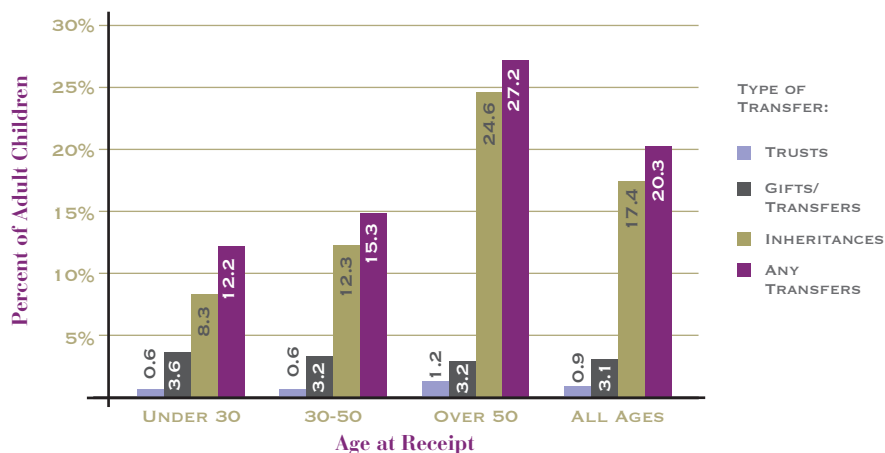
Wealth is a broad measure of parent-child persistence in economic well-being that reflects a number of other types of similarity between parents and their offspring. Several studies have shown similarities between parents and their adult children in income, asset ownership, consumption, and years of schooling. The literature on similarity in income, a fundamental building block of wealth, is especially extensive.

There is also strong evidence that parents exert genetic influences on their children's abilities, not least their intellectual capacity.<sup>19</sup> As discussed in Chapter I "Economic Mobility of Families Across Generations," studies show that there is a substantial correlation between the income of parents and their adult children.

At least two studies show that in each of the other areas of parent-child similarity—including asset ownership, consumption, and years of schooling—there is also considerable similarity between parents and their adult children. Particularly remarkable is the finding in a study conducted at the University of Michigan, based on the PSID, that the influence of parents extends even to the types of assets held by adult children.<sup>20</sup> More specifically, the researchers found, controlling for income, that adult children are similar to parents in holdings in bank accounts and in the probability of stock ownership.

FIGURE 9

Percent of Adult Children Receiving Transfers by Age at Receipt and Type, 2004



Source: Desmond Toohey of the Urban Institute using data from the Survey of Consumer Finances.

### CONCLUSION

The evidence on wealth transmission and mobility across generations shows that many parents in the United States are able to pass along behaviors related to wealth accumulation, to have several types of influence on their children's development and behavior that lead to wealth accumulation (or not), and, in some cases, to provide their children with inheritances or other transfers of wealth.

There is also good evidence that the correlation in income between parents and children contributes substantially to their similarity in wealth. It probably takes four or five generations for all influences on wealth accumulation that parents pass on to succeeding generations to completely dissipate. Together, all of these factors tend to reduce wealth mobility across generations.

However, studies also show that the wealth of adult children tends to move nearer to the mean of wealth for all families, either from above in the case of parents with

above-average wealth or from below in the case of families with below-average wealth.

Further, not more than a quarter of families actually receive inheritances and more than half the wealth owned by families in the current generation is generated by their own earnings from employment, business ventures, or investments. Even adult children with parents in the lowest fifth of the wealth distribution have well over a 60 percent chance of moving out of the bottom—and nearly a 20 percent chance of making it to the top two quintiles of wealth.

An important implication of the research on wealth is that the American economy continues to facilitate the production of great increases in wealth in each generation and most families along the income distribution have managed to improve their wealth in recent years. Although we might wish that there were even more wealth mobility, the American economy continues to reward hard work and risk-taking.

# NOTES

<sup>1</sup> Kennickell, 2006.

<sup>2</sup> In certain complex households, the survey divides all individuals living in the household into the “primary economic unit” (PEU) and the rest of the household. The PEU is the economically dominant individual or couple and all others in the household that are financially interdependent with the dominant individual or couple. The interviews last for up to two hours. About 30 percent of those asked to participate refuse. However, among the wealthiest families, the refusal rate is as high as 90 percent. Because of this problem, the survey actually consists of two samples, a random sample representative of the population and an over-sample of relatively wealthy families. The two samples are weighted to produce estimates for the entire population. See Bucks, Kennickell, and Moore, 2006.

<sup>3</sup> For more information about the Panel Study on Income Dynamics, see <http://psidonline.isr.umich.edu>.

<sup>4</sup> Kennickell, 2006.

<sup>5</sup> Wolff, 2007.

<sup>6</sup> Though beyond the scope of this report, it is interesting to note that there are substantial differences in asset ownership between white and nonwhite families. In 1994, the value of assets held by the median white family was more than seven times that held by the median nonwhite family. For more, see Conley, 1999.

<sup>7</sup> As Ben Bernanke, Chairman of the Federal Reserve, recently put it, “Given their weaker credit histories and financial conditions, subprime borrowers default on their loans more frequently than prime borrowers. The consequence of default may be severe for homeowners, who face the possibility of foreclosure, the loss of accumulated home equity, and reduced access to credit.” See House Committee on Financial Services, 2007.

<sup>8</sup> For a discussion of the intergenerational income elasticity, see Sawhill and McLanahan, 2006; and Chapters I and II in this volume.

<sup>9</sup> Several recent studies based on the PSID have produced estimates of wealth elasticities. Mulligan, 1997, averaged wealth across several years for both parents and their adult children to increase the reliability of his wealth measures, examined several different combinations of parents and offspring, and used a number of approaches to correcting for measurement error to produce four separate estimates of elasticity ranging from .32 to .50; Mulligan concluded that the most reliable of the estimates was probably closer to .5 (see Mulligan, 1997, especially Chapter 7). In another high-quality study using the PSID, Charles and Hurst, 2002, found that the elasticity of child wealth with respect to parent wealth was .37. Other studies estimate elasticities between .4 and .5 (Kotlikoff and Summers estimate an elasticity of .46). An early study by Menchik based on Connecticut probate records reported an elasticity of .75. However, this study is flawed because the data are for one state, both parents and children had to have died in the same state, only estates of \$40,000 or over (over \$300,000 in 2007 dollars) were included, and less than one-third of the children’s generation was found (300 children of 1,050 parents who had children eligible for the sample). See Kotlikoff and Summers, 1981; Menchik, 1979, and Charles and Hurst, 2003. For an additional explanation of the difference between intergenerational elasticity and the intergenerational correlation, see note 10 in Chapter II “Trends in Intergenerational Mobility.”

<sup>10</sup> Solon’s definition was written to apply to income mobility, but the concepts and the mathematical calculations are the same for wealth elasticity as for income elasticity; see Solon, 2002.

<sup>11</sup> Solon, 2002.

<sup>12</sup> It should be noted that these estimates of how many generations income or wealth will continue to have an influence are estimates based on mathematical calculations and are not based on actual empirical data.

<sup>13</sup> See Mulligan, 1997; and Charles and Hurst, 2003.

<sup>14</sup> Charles and Hurst, 2003, p. 1157.

<sup>15</sup> Wolff, 2002. It is difficult to get good information on how many parents contribute to their child’s education, but it appears to be more than is captured by the SCF. According to the National Postsecondary Student Aid Study, based on interviews with a representative sample of students, the percent of parents who provide help with tuition varies greatly by the type of institution their child is attending. The range is from 19 percent of parents providing tuition aid for students attending public two-year institutions to 48 percent for students attending private doctoral and liberal-arts institutions. A substantial number of students also live at home where they probably receive lots of in-kind assistance. Interestingly, there appears to be an inverse relationship between the percent of parents who help with tuition and the likelihood that students live at home. For example, although only 19 percent of students attending public two-year institutions receive help with tuition from their parents, over 65 percent of them live at home. By contrast, although nearly half of students attending private doctoral and liberal arts institutions receive help from parents with tuition, only 13 percent of them live at home. See Choy and Berker, 2003.

<sup>16</sup> Because of some very large transfers, the mean value of the wealth transfers was higher and more variable than the median, rising to over \$345,000 in 1995 from around \$312,000 in 1989 and \$313,000 in 1992 before falling to \$256,900 in 1998. Due to both the changes in the average amount transferred and the rapid increase in average wealth, especially after 1995, wealth transfers reached a high of 35.5 percent of wealth in 1995 before falling sharply to 19.4 percent in 1998. See Wolff, 2002, Table 1.

<sup>17</sup> Wolff, 2002.

<sup>18</sup> The means were computed based only on the adult children who actually received transfers. Zeroes were omitted.

<sup>19</sup> Plomin, 2004.

<sup>20</sup> Chiteji and Stafford, 2000.



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# ECONOMIC MOBILITY OF MEN AND WOMEN

BY JULIA B. ISAACS, THE BROOKINGS INSTITUTION

Over the past generation, there has been a dramatic shift in women's participation in the workforce and contributions to family income. With this shift, studies of economic mobility, which have traditionally focused on the relationship of men's income to those of their fathers, have expanded to consider the experiences of women.

This chapter describes and compares men and women's economic success and income mobility across the generations: How have men and women fared economically over the past few decades? How do their incomes compare with incomes of their own parents? Do parents pass along their economic advantage or disadvantage to their sons and daughters in the same way?

To address these questions, the analysis focuses on a sample of 1,271 women and 1,096 men whose family incomes have been monitored from childhood to adulthood through the Panel Study of Income Dynamics (PSID). As explained in more detail in Appendix A, these men and women were ages 0 to 18 in 1968 and had an average

age of 39 in 1995–2002, when adult family incomes were observed.<sup>1</sup> The first sections of this chapter, however, use national income and labor data from the U.S. Census Bureau's Current Population Survey to outline income growth for men and women over time.

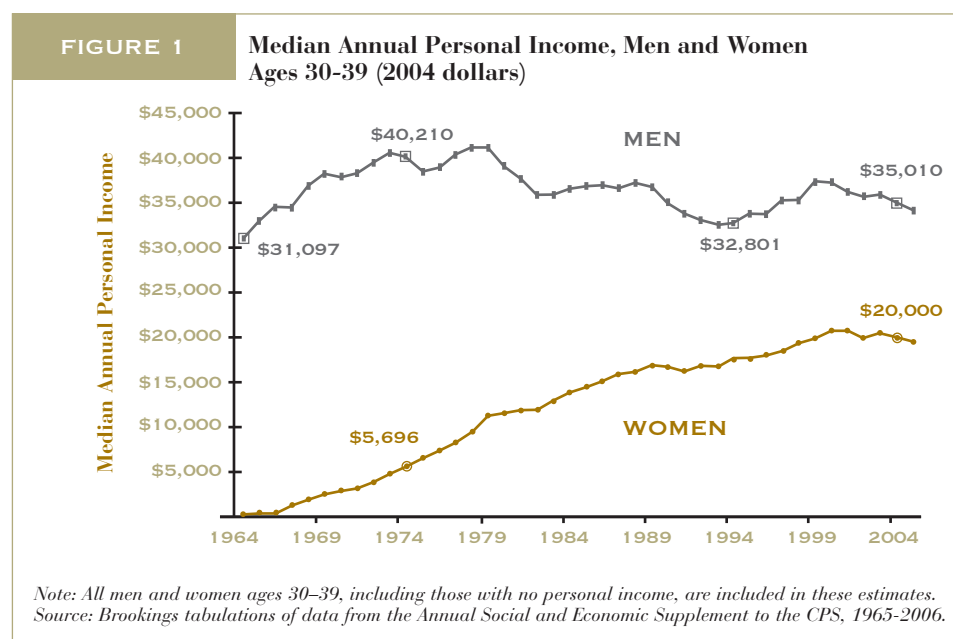
## WOMEN'S INCOMES GREW WHILE MEN'S INCOMES STAGNATED

**Women in their 30s today have substantially higher income than did women in their 30s in their mothers' generation; however, men in their 30s today have**

**not had the same experience of upward economic mobility.**

Figure 1, which compares growth in median personal incomes for all women and men in their 30s, offers generational comparisons: income growth from 1964 and 1994, and income growth from 1974 and 2004.<sup>2</sup>

Over the past several decades, economic opportunities for women have risen substantially as women have gained college degrees in higher numbers, spent more time in the paid workforce, and commanded higher hourly earnings than in earlier times.<sup>3</sup> The combination



of higher labor force participation and higher wages has led to substantial increases in women's personal income. Between 1974 and 2004, median personal income for women in their 30s increased from about \$5,700 to \$20,000 (in 2004 dollars, see Figure 1).

As found in previous studies of the Economic Mobility Project, men have not had the same experience. Inflation-adjusted median income for males ages 30–39 increased by only 5 percent between 1964 and 1994, from about \$31,000 to under \$33,000. The story is worse a decade later. Men in their 30s in 2004 had a median income of about \$35,000 a year, which was 12 percent less than the median income of \$40,000 for men in their fathers' generation, those who are now in their 60s. This cohort of men has not benefited from the economic “up-escalator” that has historically ensured that each generation would do better than the last.

Much of the difference in trends for men and women is due to flat or slightly declining trends in employment rates, hours worked, and wages for men during a period when all three components of annual earnings were increasing for women.

**Employment rates.** There was a decline in the proportion of men in their 30s who were employed, from 91 percent in 1964 to 86 percent in 2004. In contrast, employment rates for women in their 30s climbed from 39 percent of women in this age group in 1964 to 70 percent in 2004.<sup>4</sup> However, women do still spend more time than men moving in and out of the workforce as they balance work and family responsibilities.

**Hours worked.** Among those who worked, annual hours worked declined slightly (by 1 percent) for men in their 30s, while increasing

by 25 percent for women in their 30s over this same time period, 1964 to 2004.<sup>5</sup>

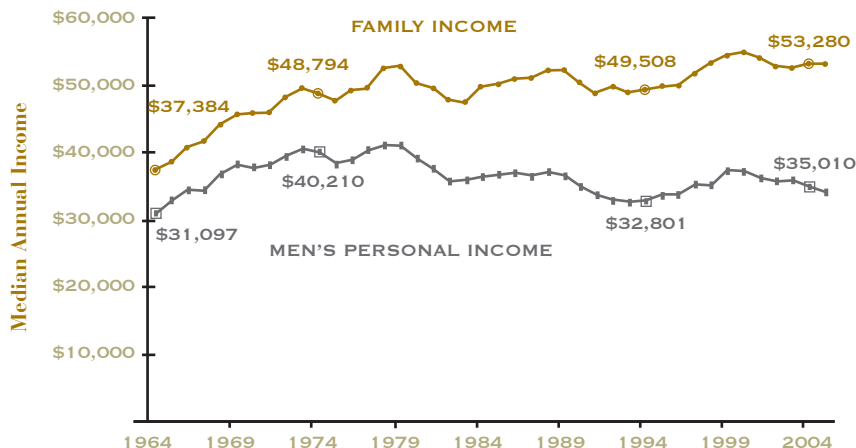
**Wages.** Median hourly cash wages for women have increased steadily in recent decades, while median hourly wages for men have fluctuated up and down without improving. For example, between 1973 and 2005, median hourly wages for women 16 to 64 rose 29 percent, while median hourly wages for men actually fell by 1 percent. The lack of wage growth was particularly pronounced for men at the bottom of the wage distribution.<sup>6</sup> Men's wages are still higher than women's wages, but the gap has narrowed. Among full-time, full-year workers, women earned 77 cents on the dollar earned by men in 2005, compared to 57 cents 1973.<sup>7</sup>

## GROWTH IN FAMILY INCOME IS DRIVEN BY GROWTH IN WOMEN'S INCOME

The primary focus of these studies of economic mobility is family income, which often involves a combination of male and female personal incomes. In these studies, for those who are married, family income is based on the cash income of both spouses as well as any other family members. For single individuals (who are treated as one-person families), family income is simply the individual's personal income. Non-cash contributions to family income are not included in the

FIGURE 2

Median Annual Personal and Family Income, Men Ages 30-39 (2004 dollars)



Source: Brookings tabulations of data from the Annual Social and Economic Supplement to the CPS, 1965-2006.

analysis, but are discussed in Chapter I “Economic Mobility of Families Across Generations.”

**Over the past four decades, median family income has increased, despite stagnant male wages.**

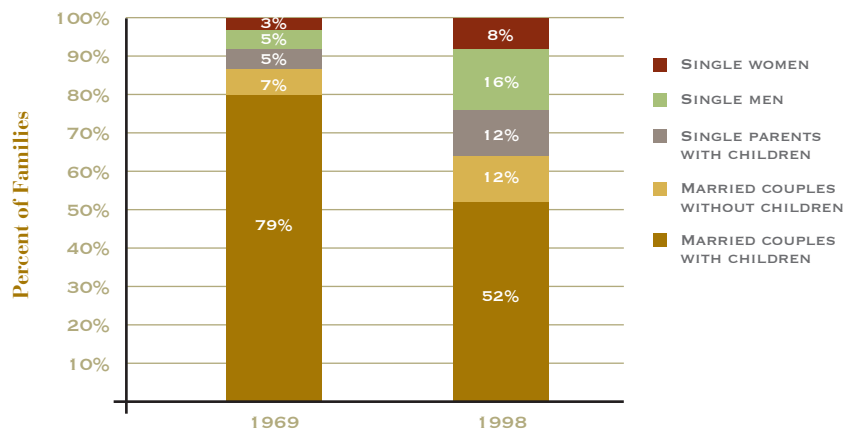
As shown in Figure 2, on the previous page, between 1964 and 1994, median family income for families containing men in their 30s has increased by 32 percent (or 0.9 percent per year). A decade later, the change in family income was much smaller—9 percent (or 0.3 percent

per year)—but still represented positive growth. As more women have entered the workforce and worked at higher wage levels, family incomes have increased despite the lack of growth in men’s incomes.

At the same time that family income growth has become a family enterprise, family composition has changed significantly. As shown in Figure 3, between 1969 and 1998 the proportion of adults in their 30s who are living in married families with children declined from 79 percent to 52 percent.<sup>8</sup> There were increases in the proportions living in single-parent families (12 percent in 1998), as childless couples (also 12 percent) and as unmarried men without children (16 percent) or unmarried women without children (8 percent).<sup>9</sup> As a result of these changes as well

FIGURE 3

Family Composition for Adults Ages 30-39



Source: Brookings tabulations of data from the Annual Social and Economic Supplement to the CPS, 1970 and 1999.

### Marriage Rates by Parent Income Quintiles

Detailed analysis of marriage rates by parental income quintile shows some difference by income distribution as well as gender. As shown in Table 1, there are relatively small differences in marriage rates between sons and daughters at each income level, with the notable exception of sons and daughters with parents from the bottom quintile. Less than half (47 percent) of women in the bottom fifth were married in 1996, compared to 61 percent of their male counterparts. Parental marriage rates are also low for this group (64 percent compared to 91-98 percent for parents in other income groups), suggesting that the low marriage rates for these daughters is associated with single-parent status of their parents, as well as low family incomes.<sup>10</sup>

TABLE 1

Percent Married, by Generation, Gender, and Parental Income

	PARENTS IN 1968	SONS IN 1996	DAUGHTERS IN 1996
<b>ALL</b>	<b>90%</b>	<b>68%</b>	<b>64%</b>
Parents in top fifth:	98	71	70
Parents in fourth fifth:	97	77	72
Parents in middle fifth:	98	67	68
Parents in second fifth:	91	66	61
Parents in bottom fifth:	64	61	47

Source: Brookings tabulations of PSID data.

as fewer children per family, family size for adults in their 30s was only 3.2 persons, down from 4.5 persons in 1969.

A similar generational shift in family composition is evident in the PSID sample that is used for the data analysis described in the remainder of this chapter. The percentage of married individuals fell from 90 percent in the parents' generation to about two-thirds (68 percent for men and 64 percent for women) in the children's generation (see text box on previous page).

These changes in family size and composition add important contextual information to the observed stagnation in male personal income and the moderate increases in family income. For example, the failure for a typical man in his 30s

to earn as much as did men in his father's generation may be viewed as less problematic if he is not supporting a wife and children. On the other hand, lower levels of male personal income may be contributing to the decline in marriage rates.<sup>11</sup> While the rise in women's labor force participation can be seen as having positive effects on family economic well-being, it can also contribute to the added time pressures facing families today.

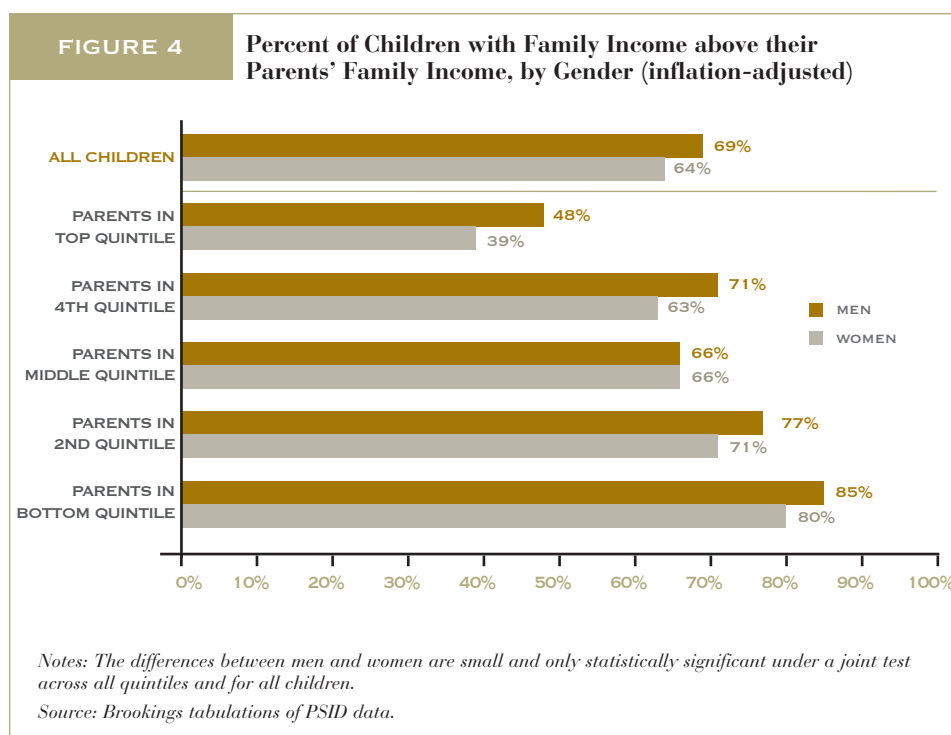
#### INTERGENERATIONAL MOBILITY: RELATIVELY FEW DIFFERENCES BUT SOME EVIDENCE OF MORE UPWARD MOBILITY FOR SONS

The PSID provides decades of longitudinal data that allows the analysis to move beyond a comparison

of generational averages of family income to direct comparisons between individuals and their actual parents. As reported in other chapters, two out of three Americans who were children in 1968 have grown up to have higher family incomes than their parents (after adjusting for inflation). How similar are the experiences of sons and daughters?

#### Sons are slightly more likely than daughters to surpass their parents' family incomes.

As Figure 4 illustrates, 69 percent of sons and 64 percent of daughters grew up to have family income in 1995–2002 that was higher than their inflation-adjusted childhood family income in 1967–1971. Moreover, the pattern of slightly higher absolute incomes for sons than daughters is present to some degree across different economic classes.<sup>12</sup>



As in other chapters, the intergenerational analysis addresses relative mobility—how children move up and down in social rank, relative to their initial starting point or family background—in addition to the question of moving up in absolute terms beyond one's parents. For the relative mobility analysis, individuals are grouped into five equally sized income groups or quintiles: first according to their parents' income and then according to their own income as adults. The two rankings are then compared to see whether the advantages of being born to parents with higher incomes—and

the disadvantages of being born to parents with lower incomes—have a similar impact on the economic prospects for sons and daughters.

**There are relatively few differences between sons and daughters with regard to whether men and women of different economic backgrounds have an equal shot of moving up the income ladder.**

With differences of only a few percentage points, there are very few clear patterns to be seen in the full set of transition matrices presented in Figure 5.<sup>13</sup> Both sons and daughters experience the same “stickiness” at the top and bottom of the income distribution as is found for all children in the analysis presented in Chapter I “Economic Mobility of Families Across Generations.” For example, 39 percent of sons and 39 percent of daughters born to parents at the top of the income distribution end up at the

top quintile themselves. Likewise, sons and daughters whose parents are at the bottom of the income distribution tend to end up at the bottom themselves.

**Relative mobility is particularly low for girls born to parents in the bottom fifth of the income distribution.**

Close to half (47 percent) of low-income girls compared to 35 percent of low-income boys end up in the bottom fifth upon adulthood. This lack of mobility is consistent with the findings of lower marriage rates for women growing up in low-income families.

As in the Chapter I “Economic Mobility of Families Across Generations,” a final section of the data analysis provides a four-part typology integrating components of absolute and relative terms.<sup>14</sup> Presented in detail in Appendix C, the typology shows the following:

**(1) About one-third of both sons and daughters are *upwardly mobile* in the sense of both getting ahead of their parents’ family income and moving ahead of their parents’ income ranking (36 percent of sons and 33 percent of daughters).**

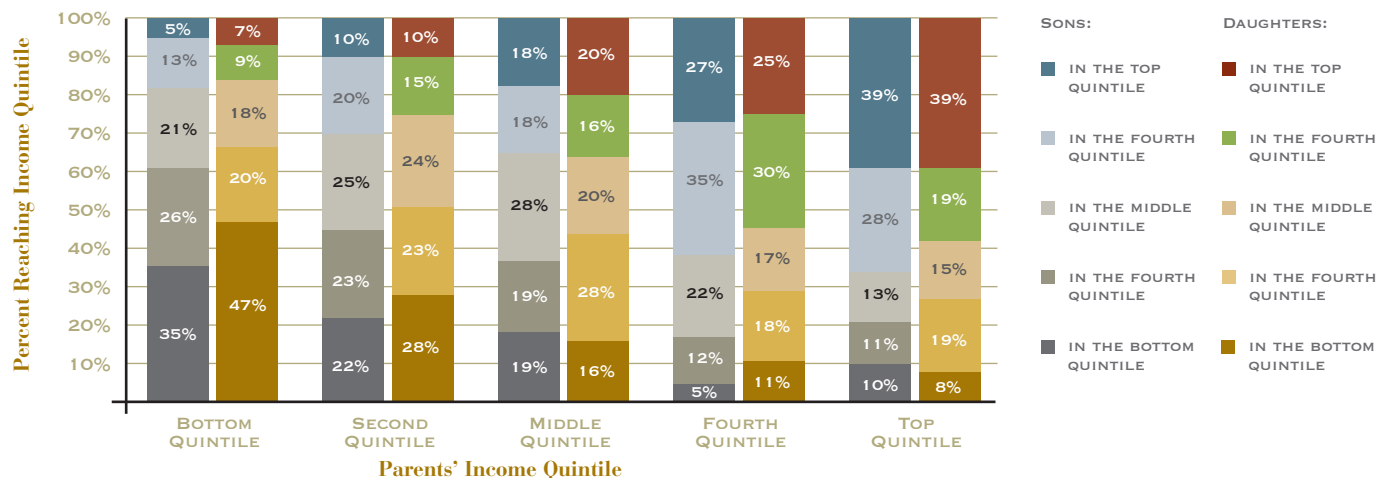
**(2) Another one-fourth of sons and daughters are *riding the tide* and are making more than their parents but remain in the same economic position (27 percent of sons and 26 percent of daughters).**

**(3) As with all children, there is a small percentage (5 to 6 percent) of both sons and daughters who are *falling despite the tide*; although they have more income than their parents they fall behind their parents’ economic position.**

**(4) Daughters appear to be slightly more likely to be *downwardly mobile* than sons.** More than one-third (36 percent)

FIGURE 5

Chances of Getting Ahead or Falling Behind in Income Ranking, by Parental Income and Child’s Gender



Source: Brookings tabulations of PSID data.



of daughters make less than their parents' income and fall behind or remain at their parents' economic position, compared to 31 percent of sons.

## FINDINGS FROM THE LITERATURE

**Other researchers also have found few differences between sons and daughters when measuring intergenerational income mobility across the full income distribution.**

Instead of relying solely on transition matrices, many researchers compare the associations of income between parents and sons and parents and daughters through a statistical measure called an intergenerational elasticity coefficient (IGE).<sup>15</sup> Estimates by Chadwick and Solon (2002) suggest IGEs in the range of 0.35 to 0.49 for daughters, compared to 0.54 to 0.58 for sons.<sup>16</sup> Lower IGE coefficients or less association of incomes for daughters means slightly higher mobility away from parents (both upward and downward), but in some comparisons the differences between daughters and sons were not statistically significant. A more recent analysis by Lee and Solon (2006) finds very little difference between men and women in income mobility.

Researchers do find differences between men and women when they compare personal earnings rather than family income. Peters (1992) found similar levels of mobility when looking at sons' income, daughters'

income, or sons' earnings, but much higher mobility (less resemblance to parents) for daughters' earnings. In fact, she found almost perfect mobility, that is, no relationship between parents' economic class and the level of women's earnings. In a more recent study of administrative data on earnings, Dahl and DeLeire (forthcoming) also found that daughters' earnings had less of a resemblance to fathers' earnings than was true for sons. Women's movements in and out of paid employment—following labor supply decisions that may be influenced by their spouse's earnings as well as the presence of children—may explain why daughters' earnings are less correlated than sons' earnings with parental earnings.

**Assortative mating, or the marrying of persons similar in characteristics and background to one's own, plays a large role in explaining the resemblance of daughters' family income to the income of their parents.**

Chadwick and Solon (2002) find that the earnings of a married daughter's husband bear as much resemblance to her parents' income as do her own earnings. Moreover, his earnings are usually higher than her earnings, and so have a heavier weight in shaping total family income. In other words, women would have higher rates of intergenerational mobility—more movement away from the economic class of their parents—if it were not for the contributions of their husbands' earnings.

Not only who a woman marries, but whether she marries (or remains married) has a substantial effect on her economic status and mobility. In a study comparing families in 1988 and 1998, Bradbury and Katz (2002) found more downward mobility over a 10-year period among families who lost a husband to death or divorce than for families losing a wife. They found that three fourths of families losing a husband moved down at least one income quintile compared to only 49 percent of families losing a wife.<sup>17</sup>

Divorce and single parenthood can also influence intergenerational mobility and may explain some of the lack of mobility for low-income girls. The research literature provides some evidence that the children of divorced parents are more likely to get divorced and stronger evidence that daughters of single mothers are more likely to be single mothers.<sup>18</sup> The trends observed in Table 1 appear consistent with this research literature. Absence of a husband is thus a characteristic that may be handed down from mother to daughter, along with the accompanying lower prospects for economic success.

## CONCLUSION

Median family income has increased over the past four decades because of the sharply rising incomes of women. Increased employment levels, wages, and hours worked have increased personal income for women, far beyond the incomes of women in earlier generations, though not to

the levels of men. In contrast, men's personal incomes have stagnated, and in fact, men in their 30s today have incomes slightly below their fathers' incomes.

Regarding personal income, therefore, women have experienced more absolute mobility than men. With regard to family income, however, men and women's absolute mobility experiences are much more similar.

An examination of family incomes of matched pairs of parents and children reveals that both sons and daughters have higher family incomes than their parents, by a ratio of about two to one. In fact, sons are slightly more likely than daughters to exceed parents in absolute levels of family income.

An analysis of movements up and down the income ladder finds that both sons and daughters benefit from having high-income parents and are disadvantaged by having low-income parents. Most of the differences in relative mobility between sons and daughters are small. One notable exception is in the lowest-income families, where daughters are even less likely than sons to break out of the bottom fifth of the income distribution.

The same pattern is seen in a mobility typology that contains elements of both absolute and relative mobility measures. Men and women are fairly similar overall in mobility, except women are slightly more likely to be downwardly mobile in the double

sense of making less money and moving down one or more quintile. For men, the intergenerational transmission is driven by a relatively strong relationship between the earnings of fathers and sons. For women, the general tendency to marry men whose earnings and income prospects are similar to those of one's parents plays an important role in explaining observed mobility patterns.

More generally, the evidence highlights the importance of recognizing that economic mobility generally occurs within the context of families and is not solely a result of individuals operating as lone economic agents.

# NOTES

<sup>1</sup> As explained in more detail in Appendix A, adult family incomes are observed in 1995, 1996, 1998, 2000 and 2002. This 5-year average is compared to parents' family incomes in 1967–1971. The adult children ranged in age from 27 to 45 years in the first year of adult income data (1995) and from 34 to 52 years in the last year of adult income data (2002).

<sup>2</sup> The CPS data analysis focuses on adults in their 30s because economists have found income in one's 30s to be a better indicator of long-run income than income at earlier ages, see Solon, 1999. Another advantage of examining adults 30–39 in the CPS is that there is some overlap in ages with adults in the PSID sample (who range in age from 27 to 52). Personal income includes before-tax earnings, interest and dividends from capital, cash benefits from government programs (such as Social Security, welfare, or unemployment compensation), alimony, and other cash income. It does not include the value of non-cash compensation such as employer contributions to health insurance and retirement benefits, nor does it include the effect of taxes or non-cash benefits such as food stamps. See “Economic Mobility of Families Across Generations” for discussion of non-cash contributions to economic well-being.

<sup>3</sup> Kearney, 2006.

<sup>4</sup> Brookings tabulations of data from the Annual Economic and Demographic Supplement of the CPS. Among women 16 and older, labor force participation has increased from 43 percent in 1970 to 59 percent in 2003. Bureau of Labor Statistics, 2005.

<sup>5</sup> Brookings tabulations of data from the Annual Economic and Demographic Supplement of the CPS. Among women 16 to 64, the percentage of women workers who work full-time, full-year has increased from 41 percent in 1970 to 59 percent in 2003, Bureau of Labor Statistics, 2005.

<sup>6</sup> Mishel, Bernstein, and Allegretto, 2007, Tables 3.5 and 3.6. Wages at the 20th percentile for male workers fell by 6 percent, whereas wages at the 20th percentile for female workers increased by 16 percent.

<sup>7</sup> See U.S. Census Bureau, Historical Income Table P-40. Based on median earnings of full-time, year-round workers 15 years old and over as of March of the following year.

<sup>8</sup> These two years, 1969 and 1998, were selected as the approximate midpoint of the 1967–1971 and 1995–2002 time spans used in the subsequent PSID data analysis.

<sup>9</sup> About two-thirds of unmarried individuals without children live alone or with unrelated individuals; the remaining one-third live with their parents or other relatives.

<sup>10</sup> Note that although both generations show low marriage rates in the bottom quintile, there is an important difference between the generations in the income analysis. Whereas low marriage rates among parents can be a direct influence on parental family income as well as vice versa, low marriage rates in the children's generation cannot be seen as having a direct causal influence on the income levels of their parents some 30 years earlier.

<sup>11</sup> McLanahan, 2004.

<sup>12</sup> The difference between men and women overall is statistically significant ( $p=.010$ ). None of the differences between men and women in the individual quintiles are significant with 95 percent confidence, but the pattern of differences is significant under a joint test ( $p=.048$ ).

<sup>13</sup> A chi-squared test shows that we can reject at the 99 percent level of confidence the hypothesis that boys and girls have identical expected distributions.

<sup>14</sup> John E. Morton and Ianna Kachoris of Pew's Economic Mobility Project collaborated with the author in developing the mobility typology presented in Appendix C.

<sup>15</sup> The intergenerational elasticity (IGE) measure comes from a linear regression equation estimating the relationship between children's and parents' income, with both child and parental income expressed in logarithmic measures. It measures the percentage difference in expected child income associated with a one percent difference in parental income. To interpret the IGE, imagine a group of parents whose income is 80 percent higher than average. If they are in a society with an IGE of 0.5, then their children would, on average, have incomes 40 percent higher than average (80 percent  $\times$  0.5). And at the extreme of an IGE of 0, any large group of children would have average incomes unrelated to the income of their parents.

<sup>16</sup> See Chadwick and Solon, 2002. Their IGE estimates are based on analysis of PSID data.

<sup>17</sup> The 75 percent moving down one income quintile is over a base that excludes the bottom quintile (from which downward movement is impossible).

<sup>18</sup> See d'Addio, 2007; and McLanahan and Bumpass, 1988.

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## VI

# ECONOMIC MOBILITY OF BLACK AND WHITE FAMILIES

BY JULIA B. ISAACS, THE BROOKINGS INSTITUTION

**T**he belief that one's child will be better off than oneself is a foundation of the American Dream. The dream that one can rise up from humble beginnings and achieve a comfortable middle-class living, if not attain great wealth, transcends racial lines. But is this a reality for black and white families alike?

This chapter explores the differences between white and black families with regard to economic success and income mobility. As with other chapters in this volume, it seeks to answer two main questions. The first, focusing on absolute mobility, asks about the economic progress of white and black families over recent generations. Do children of black and white Americans advance beyond their parents in terms of family income?

The second question, focusing on relative mobility, asks about movement up and down the income ladder. Do black and white children starting on similar rungs on the ladder have an equal shot at rising in society?

### *About the Study*

As described in the Chapter V

“Economic Mobility of Men and Women,” economic mobility is increasingly a family enterprise. Accordingly the study focuses on family incomes. The analysis looks first at overall income trends, based on data from the U.S. Census Bureau’s Current Population Survey (CPS). Then, a direct comparison is made between the incomes of individuals and their own parents, to measure changes across generations in both absolute income levels and relative economic standing.

The analysis focuses solely on black and white families because of data constraints of the Panel Study of Income Dynamics (PSID), the longitudinal survey used for the intergenerational analysis. The PSID survey has repeatedly interviewed a sample of families and their descendants since 1968, allowing comparison of the children’s income as adults with their family’s income in childhood.<sup>1</sup> To reduce the effects of year-to-year fluctuations in income, total family incomes of the now-grown children are averaged across five recent years (1995, 1996, 1998, 2000 and 2002) and compared to the 5-year averages of their

parents’ income in the period 1967–1971.<sup>2</sup> Further methodological discussion of the PSID data sample and how family income is defined is provided in Appendix A.

### REAL INCOME GROWTH OF WHITE AND BLACK INDIVIDUALS AND FAMILIES

**Over the past three decades, personal income has increased for both white and black women in their 30s, while falling for both white and black men of the same age.**

As illustrated in Figure 1, median personal income has increased more than fivefold for non-Hispanic white women, after adjusting for inflation. In 1974, many white women in their 30s were stay-at-home mothers with little, if any, earnings, and median personal income was only \$4,000.<sup>3</sup> Thirty years later, median personal income was \$22,000 for comparably aged white women. As in other chapters in this volume, this initial analysis of U.S. Census Bureau data focuses on personal incomes of adults in their 30s in 1974 and 2004 to facilitate comparison across a typical generation.

Income growth was not as large for black women ages 30 to 39 because they had much higher levels of employment and income (median of \$12,000) in 1974. One generation later, median personal income for non-Hispanic black women rose to \$21,000, or about 95 percent the level of non-Hispanic white women.

**Incomes of black men have been fluctuating without improvement and were lower in 2004 than 1974.**

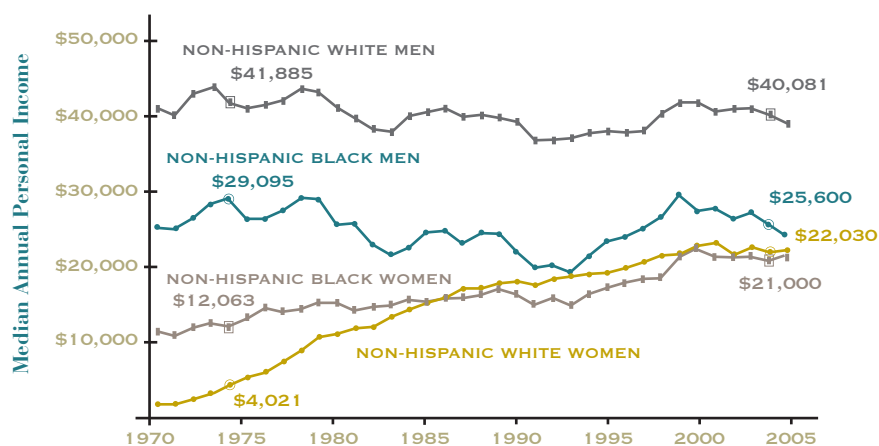
During this time period, 1974–2004, white and black men in their 30s experienced a decline in incomes, with the largest decline among black men. Non-Hispanic black men in their 30s today earn 12 percent less than men

in their father's generation earned. Median personal income for non-Hispanic black men for this age cohort is only 64 percent of median income for non-Hispanic white men of the same age.

Much of the difference between white and black men is tied to differences in wages of full-time workers. Among full-time workers age 16 and older, median weekly earnings of black men were 78 percent of white men's earnings in 2004.<sup>4</sup> The black-white gap in male earnings has declined historically, with a large decline from the 1960s to the mid 1970s, but there has been much less improvement over the past three decades.<sup>5</sup> Blacks also have lower income than whites due to lower employment rates. The percentage of men 16 and over who were employed in 2004 was 70.4 for white men and 59.3 percent for black men.<sup>6</sup>

FIGURE 1

**Median Personal Income of White and Black Men and Women Ages 30-39 (2004 Dollars)**

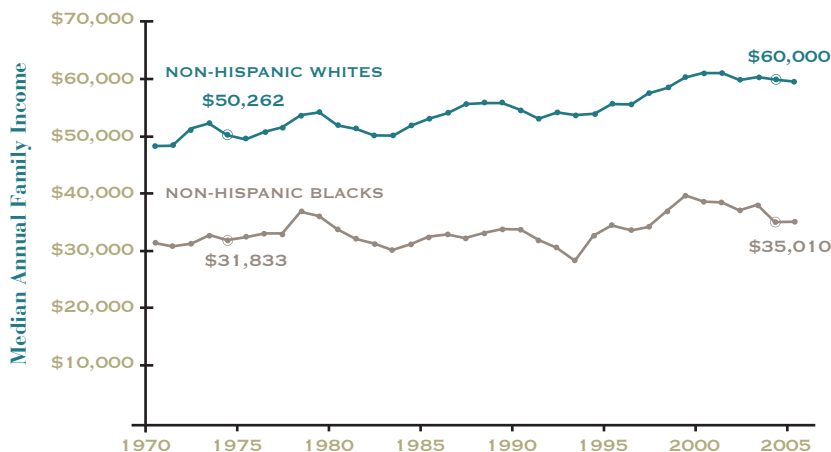


Note: All men and women ages 30-39, including those with no personal income, are included in these estimates.

Source: Brookings tabulations of data from the Annual Social and Economic Supplement to the CPS, 1971-2006.

FIGURE 2

**Median Family Income of White and Black Adults, Ages 30-39 (2004 Dollars)**



Source: Brookings tabulations of data from the Annual Social and Economic Supplement to the CPS, 1971-2006.

**Family incomes have risen for both racial groups primarily because the increase in women's incomes has outpaced the decline in men's incomes.**

Family income, the primary focus of this study, often involves a combination of male and female personal incomes. For those who are married, family income is based on the cash income of both spouses as well as any other family members. For single individuals (who are treated as one-person families), family income is simply the individual's personal income.



### There was no progress in reducing the gap in incomes between black and white families.

Consistent with the trends in individual incomes, the increase in family incomes was larger for whites in their 30s (19 percent) than for blacks (10 percent). In 2004, the family income of blacks ages 30 to 39 was only 58 percent that of comparably aged whites (\$35,000 compared to \$60,000), as shown in Figure 2.<sup>7</sup>

Blacks have lower incomes than whites across all age cohorts, not just the cohort aged 30 to 39. Income differences are particularly pronounced at the bottom of the income distribution. In 2006, close to one fourth (24.3 percent) of black individuals had family incomes below the federal poverty thresholds, a poverty rate that is nearly three times the 8.3 percent rate for non-Hispanic whites. However, these rates do

represent some progress since 1967, when black poverty rates were 39.3 percent and white poverty rates were 11.0 percent.<sup>8</sup>

### The lack of income growth for black men combined with low marriage rates in the black population has had a negative impact on trends in family incomes of blacks in the United States.

While much of the racial disparity in family income and poverty rates is a result of lower earnings and incomes of blacks, particularly black men, large differences in family structure also contribute to differences in family economic well-being. As shown in Figure 3, blacks are less likely than whites to be in married-couple families, and both races have seen a decline in marriage across the generations. Low marriage rates undoubtedly contribute to low family incomes; high percentages of blacks in their 30s are single

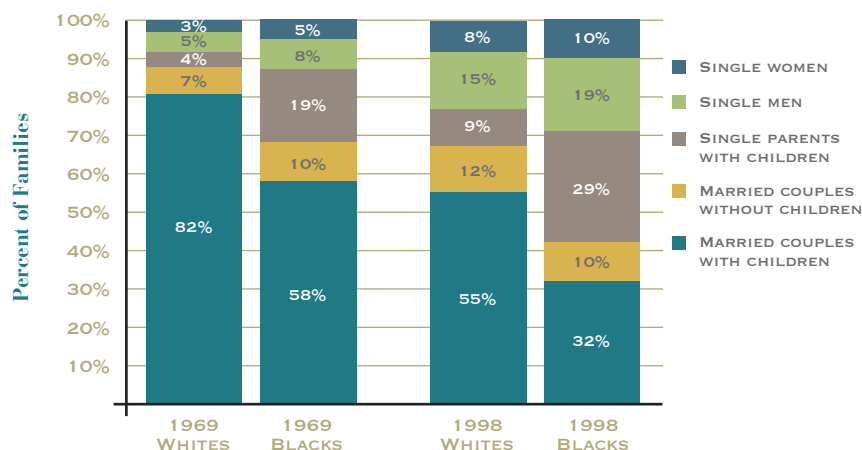
parents with children or single men and women, and so are largely reliant on income from only one adult in the family.<sup>9</sup> At the same time, many researchers believe that the low personal income of black men plays a role in explaining low marriage rates.<sup>10</sup>

Many of the racial patterns in family income and composition evident in the U.S. Census Bureau's annual surveys are also found in the longitudinal data in the Panel Study on Income Dynamics (PSID), the sample used in the intergenerational analyses that follow. Although the age cohort is broader in the PSID and there are other differences between the data sets, the broad trends in family income are similar, as shown in Table 1.<sup>11</sup> Trends in family composition are also similar.<sup>12</sup>

### Black children grow up in families with much lower incomes than white children.

Median family income for parents of black children was \$27,100 in 1967–1971, compared to \$61,100 for parents of white children, in inflation-adjusted dollars. The lower economic status into which black children are born is also evident in the fact that nearly two-thirds (62 percent) of black children were born to parents in the bottom fifth, or quintile, of the overall income distribution. Only 8 percent of black children were born to parents in the middle fifth of the income distribution, compared to 22 percent

**FIGURE 3** Family Composition of White and Black Adults Ages 30–39



Source: Brookings tabulations of data from the Annual Social and Economic Supplement to the CPS, 1970 and 1999.

of white children. Note that there were too few black parents in the top quintile to generate income or mobility statistics for this group of children.<sup>13</sup>

As documented in Chapter I “Economic Mobility of Families Across Generations,” parental income has a strong influence on childhood economic success. Given the lower economic circumstances of black children, it does not seem likely that black and white children have equal chances of economic success. Indeed, median family income for the second generation was much lower for blacks than whites, \$41,900 for blacks and \$78,800 for whites.

But the further question here is whether blacks and whites with parents of similar income levels have equal experiences of mobility. The study explores both how overall trends in economic growth translate into upward movement in absolute

dollars (absolute mobility) and how families move up and down the income ladder relative to others in the population (relative mobility).

#### **ABSOLUTE MOBILITY: BLACKS ARE LESS LIKELY THAN WHITES TO ADVANCE BEYOND PARENTS AT EACH INCOME LEVEL**

As reported earlier in this volume, two out of three Americans who were children in 1968 grow up to have higher incomes than their parents, after adjusting for inflation. But is this equally true for both black and white children?

Using the data in the PSID sample, direct comparisons can be made between the family incomes of individuals and their own parents, providing a new measure of mobility that goes beyond the simple comparisons across generations.

**When the data are *not* controlled for income, blacks and whites have similar chances of having adult incomes higher than their parents.**

About two-thirds of blacks and whites have higher family incomes, as shown in Figure 4 (the difference between the two racial groups is not statistically significant). This outcome, however, is driven by the disproportionate number of blacks in the lowest quintile, where the probability of surpassing low parental income is high for both whites and blacks (90 percent for whites and 73 percent for blacks).

**When the data are controlled for parental income quintile, at each income level, black adult children are less likely than their white counterparts to have higher income than their parents.**

<b>TABLE 1</b>		<b>Parents' Income of White and Black Children in PSID Sample</b>		
		<b>WHITE CHILDREN</b>	<b>BLACK CHILDREN</b>	<b>ALL CHILDREN</b>
Median Family Income of Parents, 1967–1971 (In 2006 Dollars)		\$61,100	\$27,100	\$55,600
<b>Percentage of Children Living in Each Income Quintile, based on Parental Income 1967–1971</b>				
Parents in top fifth: (\$81,200 or more)		23 %	** %	20 %
Parents in fourth fifth: (\$65,100–\$81,200)		23	7*	20
Parents in middle fifth: (\$48,800–\$65,100)		22	8	20
Parents in second fifth: (\$33,800–\$48,800)		19	23	20
Parents in bottom fifth: (0 to \$33,800)		13	62	20
<b>All Children</b>		<b>100</b>	<b>100</b>	<b>100</b>

\* Interpret data with caution due to small sample size. \*\* Too few observations to report estimate.

Source: Brookings tabulations of PSID data on family income 1967–1971.

The difference is particularly pronounced for the middle-income group. After adjusting for inflation, the analysis found that two out of three white children from the middle quintile grow up to have higher real family incomes than their parents. In stark contrast, only one out of three black children from the same income group surpass their parents in absolute income levels. In other words, a majority of black children born to parents in the middle quintile grow up to have less family income than their parents in inflation-

adjusted dollars. Outcomes are better for black children from other income groups, but still substantially below outcomes for white children.<sup>14</sup>

The comparison of children's income to their own parents' income is extended in Figure 5, which reports the median family income of adult children for each racial and parental income group.

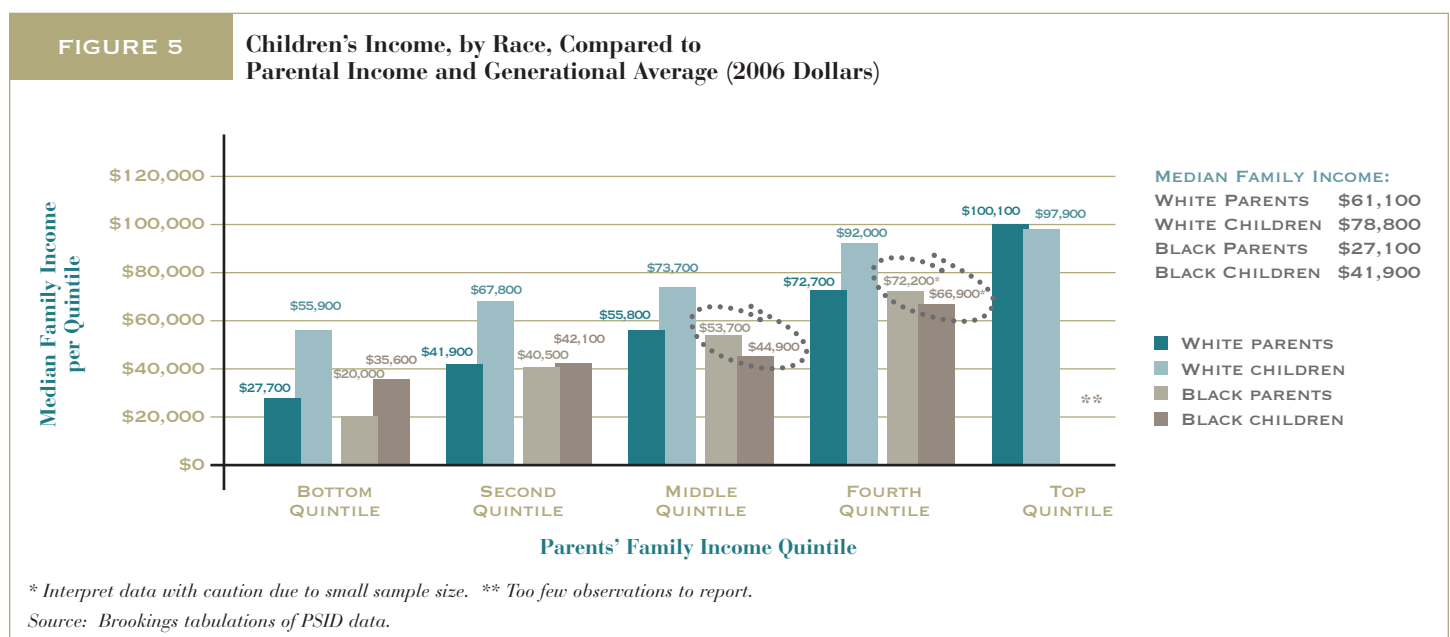
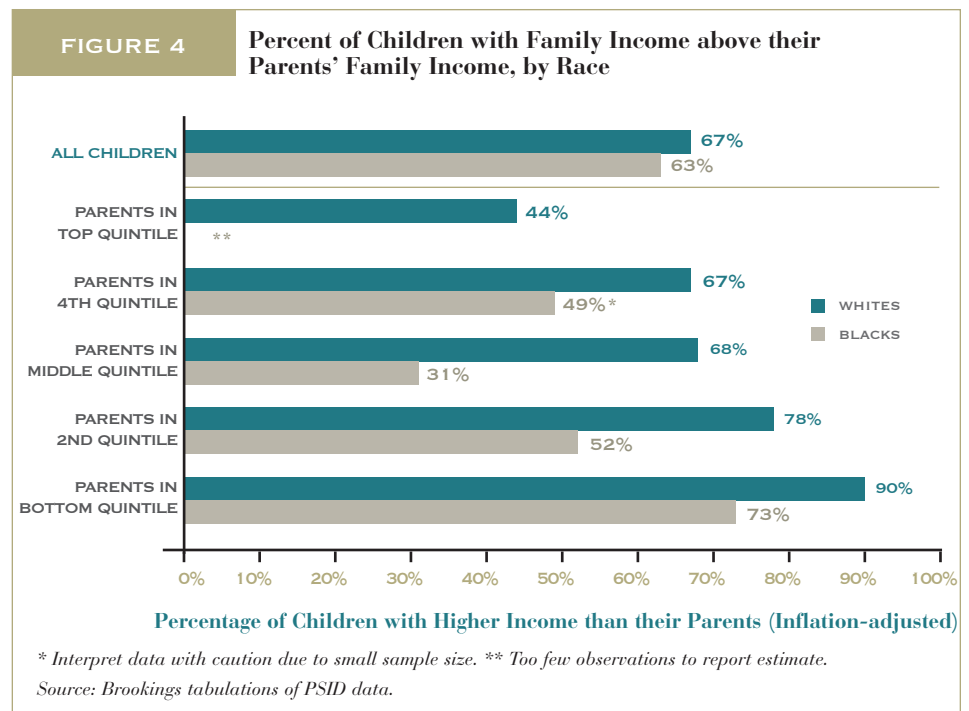
**Children from middle- and upper-middle-class black families experience a generational drop in income that is in sharp contrast to the traditional American expectation that each generation will do better than the one that came before it.**

With the exception of children born to parents in the top quintile, white children end up having higher incomes than their parents. Only two groups of black children—those in the two lowest income groups—also

experience income growth above their parents, though not as large as do white children born to parents in the same quintiles. Black children in the third and fourth quintiles end up with lower median income than their parents—by 7 percent and 16 percent, respectively.<sup>15</sup>

**RELATIVE MOBILITY:  
BLACKS EXPERIENCE LESS  
UPWARD MOBILITY AND  
MORE DOWNWARD  
MOBILITY THAN WHITES**

**For every parental income group, white children are more likely**



than black children to move ahead of their parents' economic rank, while black children are more likely than white children to fall behind.

The intergenerational analysis tracks the extent to which children move to different income quintiles from those occupied by their parents.<sup>16</sup> The analysis reveals that black children and white children do not have equal chances of moving up the income ladder, even after controlling for initial placement.

This racial difference can be seen by examining movements of children in the middle-income group, depicted in the central bars of Figure 6. More than one-third (37 percent) of white children born to parents in the middle-income group move upward to the fourth or fifth quintile, compared to only 17 percent of black children whose parents have approximately the same levels of income.

**Achieving middle-income status—with parental incomes of about \$49,000 to \$65,000 in 2006 dollars—does not appear to protect black children from future economic adversity the same way it protects white children.**

A startling 45 percent of black children whose parents were solidly middle income end up falling to the bottom income quintile, while only 16 percent of white children born to parents in the middle make this descent.

Similar trends are found in other income groups as well. In another disturbing example, 48 percent of black children and 20 percent of white children descend from the second-to-bottom income group to the bottom income group. In addition, black children who start at the bottom are more likely to remain there than white children (54 percent compared to 31 percent).

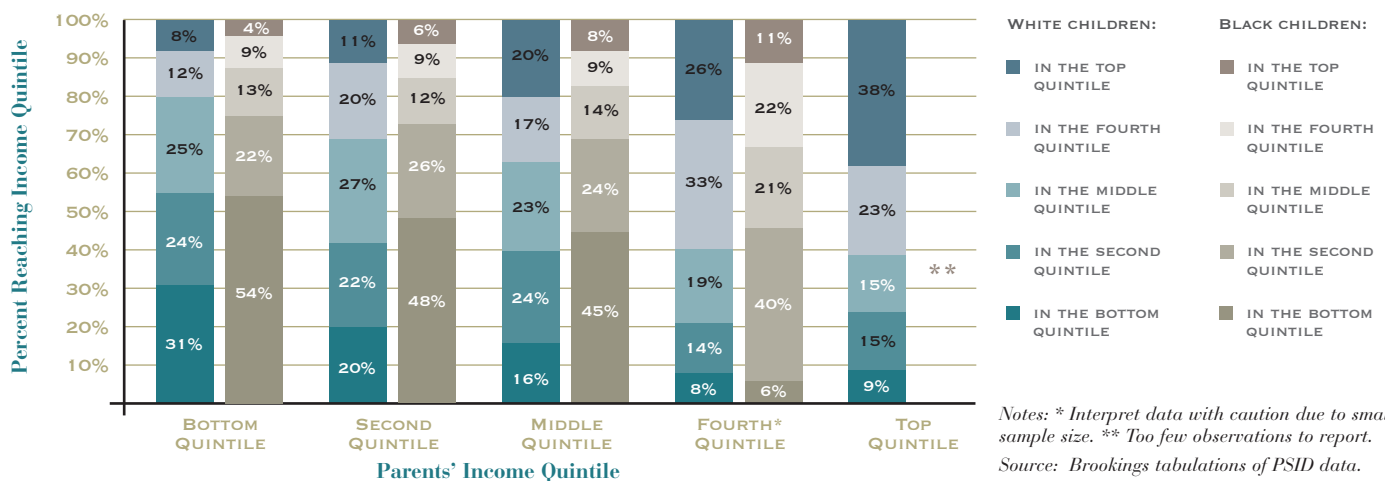
In general, white children in the sample are roughly twice as likely as black children to rise to the top quintile after controlling for parental income levels. Black children are much more likely to fall to the bottom quintile.

## NEW MOBILITY TYPOLOGY REINFORCES FINDINGS

As a final step in the analysis, the absolute and relative mobility measures presented in this chapter were integrated in a combined analysis that shows the chances that white and black children move beyond their parents in both absolute income levels and relative economic standing.<sup>17</sup> As shown in detail in Appendix D, this integrated mobility analysis reinforces the findings already reported on absolute mobility. When the data are not controlled for income, there is not much difference in the mobility experiences of black and white Americans. However,

FIGURE 6

Chances of Getting Ahead or Falling Behind in Income Ranking, by Parental Income and Race



within income groups, there are large differences, with white children more upwardly mobile than black children. This apparent contradiction is explained by the fact that outcomes for blacks are strongly influenced by the large number of black children in the bottom fifth of the income distribution—and low-income children of both races have good odds of surpassing their own parents' income.

#### **FINDINGS ARE CONSISTENT WITH AVAILABLE LITERATURE BUT UNANSWERED QUESTIONS REMAIN**

Many readers will want to know more about the robustness of these findings, as well as the underlying factors contributing to the sharp differences in both absolute and relative mobility experiences of white and black families. Are the findings reported for this sample true of black families more generally? And would the differences remain if the analysis controlled not just for income, but also for educational and occupational status, family wealth, family structure, health status, neighborhood, parental attitudes and behaviors, and other variables?

While the literature on intergenerational mobility by race is limited, similar black-white differences are emerging in other

studies (see Appendix E). A few studies also suggest that the racial gap is reduced but not eliminated when additional factors are included in the analysis.

It is important to note that the literature is uniformly hindered by the small number of minority households in the longitudinal surveys. In addition, the PSID, which is the data source for this study and much of the research on intergenerational mobility, has been criticized for having insufficient documentation of the procedures used to sample low-income minority households.<sup>18</sup> Analysis of additional data sets (including administrative data sets with larger sample sizes), as well as more extensive research on the factors contributing to racial differences, is needed to better understand the differences in mobility experiences uncovered in this analysis.

#### **CONCLUSION**

While incomes have grown for both white and black families since the early 1970s white families still have considerably higher incomes than black families. Some of the differences in economic outcomes reflect the persistent effect of income differences from the early 1970s passed down from parents to children. In addition, the mobility analyses presented here show that even within income groups, white children have better economic

outcomes than black children. In terms of absolute, relative, and integrated mobility measures, white children have substantially more upward mobility than black children of comparable incomes.

The findings for black children in the bottom fifth present a sobering picture, but one familiar from the broad literature on black child poverty. Namely, black children who are born into the bottom fifth of the income distribution have a hard time escaping upward, and a harder time than poor white children. What is not usually reported, however, is that low-income children—both black and white—have fairly good chances of exceeding their parents' income.

The findings for black children born to middle-income parents may be more startling. Many middle-income black parents have seen their children's incomes fall below their own; and disturbingly high numbers of black children have fallen from the middle to the bottom of the income distribution. Economic success in the parental generation—at least as measured by family income—does not appear to protect black children from future economic adversity the same way it protects white children.

# NOTES

<sup>1</sup> This analysis focuses on black and white families, without separate analysis of other races, due to the sample size constraints of the PSID. Individuals of other races are included in the totals and in the full income distribution that was used to create income quintiles, but not in the black or white subgroups. The terms “blacks” and “whites” are used in keeping with the terminology recommended by the Office of Management and Budget for statistical reporting for Census Bureau and other reports, see p. xxxvii of National Research Council, 2001.

<sup>2</sup> Family income is defined as the cash income of all family members including the family head, spouse and other family members. All incomes are reported in inflation-adjusted dollars, using the Consumer Price Index Research Series (CPI-U-RS). Cash income does not include the value of non-cash compensation such as employer contributions to health insurance and retirement benefits, nor does it include the effect of taxes or non-cash benefits such as food stamps. (For further discussion of non-cash contributions to economic well-being see “Economic Mobility of Families Across Generations.”)

<sup>3</sup> Personal income is based primarily on an individual’s own earnings, but it also includes income from interest and dividends, cash benefits, child support, and other cash income.

<sup>4</sup> U.S. Census Bureau, 2007, Table 630.

<sup>5</sup> Welch, 2003.

<sup>6</sup> Bureau of Labor Statistics, 2005, Table 3.

<sup>7</sup> In Figure 2, as in Figure 1, the unit of analysis is all adults in their 30s, not just family heads. The family income of adults in their thirties may therefore include the income of older (or younger) spouses, as well as other family members. Single adults are counted as a family of size one and included in family incomes reported throughout this study.

<sup>8</sup> DeNavas-Walt, 2006. The poverty data in 1967 is for all whites; whites were not categorized by Hispanic origin in 1967.

<sup>9</sup> Note, however, that single parents with children and single individuals may be living with their parents or other adult relatives, whose income would count toward family income.

<sup>10</sup> Berlin, 2007; and Wilson, 1987.

<sup>11</sup> The ages in the PSID are 27–52 rather than ages 30–39. The sample includes all 1,607 white individuals and 730 black individuals who were children in 1968 and were still in the sample in 1995–2002, when data was collected on their family incomes as adults. The PSID sample differs from the CPS sample not just in age of adults under analysis, but in other ways. For example, the income data are from slightly different time periods: 1967–1971 for the parents’ generation and 1995–2002 for the children’s generation, based on data availability. Also note that in the PSID sample, white and black families may be of Hispanic origin, but the sample is limited to those who were in the country in 1968 and thus does not represent the large numbers of Hispanic families that have immigrated more recently. See Appendix A for further description of the PSID sample.

<sup>12</sup> The PSID sample shows a similar black-white differential in family composition to the differences in Census Bureau data shown in Figure 3. For example, in 1968, 94 percent of the white parents were married, compared to 66 percent of the black parents. The gap was even wider among the younger generation (71 percent of whites and 35 percent of blacks were married in 1996).

<sup>13</sup> The sample of 730 black individuals includes only 4 observations with parental income in the top quintile (income above \$81,200 in 2006 dollars, based on a ranking of parental family incomes for individuals of all races); and 24 observations with parental income in the fourth quintile (from \$65,100 to \$81,200). The small number of observations in the fourth and fifth quintiles is partly due to the underlying income distribution in the population, but also reflects the fact the minority oversample in the PSID was concentrated on low-income households (with weights used to adjust the final statistics for this purposeful oversampling). No statistics are reported for the top quintile; statistics for the fourth quintile are flagged as imprecise due to small sample size.

<sup>14</sup> Note that there are relatively few blacks in the middle three quintiles (24 in the fourth quintile, 50 in the middle quintile, 153 in the second quintile). Even so, differences between blacks and white are statistically significant (at 95 percent confidence for the bottom, second, and middle quintiles, and between 90 and 95 percent confidence for the fourth quintile, where, as noted, estimates are imprecise due to small sample size). Also note that the differences between blacks and whites would be reduced but not eliminated if incomes were adjusted for family size. Finally, note that black parents have somewhat lower incomes than white parents, even when grouped by quintiles. However, the difference in parental incomes in the middle income quintile is not large: \$55,800 median for white parents in the middle quintile and \$53,700 median for black parents in the middle quintile.

<sup>15</sup> The intergenerational drop in income in both the middle and fourth quintiles is statistically significant.

<sup>16</sup> For the parents’ generation, the bottom quintile includes those with incomes less than \$33,800, the second quintile is from \$33,800 to \$48,800, the middle quintile is from \$48,800 to \$65,100, the fourth quintile is from \$65,100 to \$81,200, and the top quintile is families with income above \$81,200. For the children’s generation, the bottom quintile includes individuals with family incomes less than \$40,300, the second quintile is from \$40,300 to \$62,000, the middle quintile is from \$62,000 to \$84,000, the fourth quintile is from \$84,000 to \$116,700, and the top quintile is individuals with family incomes above \$116,700. All incomes are in 2006 dollars.

<sup>17</sup> John E. Morton and Ianna Kachoris of Pew’s Economic Mobility Project collaborated with the author in developing the mobility typology presented in Appendix D.

<sup>18</sup> See Solon, 1992; and Brown, 1996 for more on the PSID’s oversample of low-income minority neighborhoods. As noted in Appendix A, this analysis includes only one-third of the original low-income observations because two-thirds of the low-income sample observations were dropped from interviewing in 1997. Thus the sample here is the regular cross-sectional sample, plus one-third of the low-income sample, weighted to be nationally representative. Supplemental analyses conducted by the author find that the black-white differences remain largely unchanged if the minority low-income sample is dropped from the analysis. In fact, the differences are slightly larger. For example, when the low-income or “SEO” sample is dropped, 61 percent of blacks have income higher than their parents, compared to 63 percent under the full sample.



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## VII

# IMMIGRATION: WAGES, EDUCATION, AND MOBILITY

BY RON HASKINS, THE BROOKINGS INSTITUTION

Most economists believe that immigration, like trade, is on balance good for America. But the term “on balance” masks an important issue: whether immigration, like trade, hurts some Americans while helping others. More specifically, what is the impact of immigration on inequality and economic mobility in America?

### TRENDS IN IMMIGRATION

Recent debate reflects the concern many Americans have about both the scale and character of immigration to the United States. As Figure 1 shows, according to the U.S. Census Bureau, the number of legal immigrants has been rising steadily since the 1960s, from about 320,000 per year to nearly a million per year in both the 1990s and 2000s. In addition to these legal entrants, over 500,000 immigrants arrive or remain illegally in the United States each year.<sup>1</sup> So, in recent years, a total of about 1.5 million immigrants have arrived in the United States annually, more than a third of them illegally.<sup>2</sup> One result of these high immigration rates is that the percentage of U.S. residents who are foreign-born

increased from 4.7 percent in 1970 to 12.7 percent in 2003.<sup>3</sup> Because many immigrants tend to be in their prime child-bearing years, and because they tend to have more children than non-immigrants, the percentage of resident children who have foreign-born parents is even higher, at about 20 percent.<sup>4</sup>

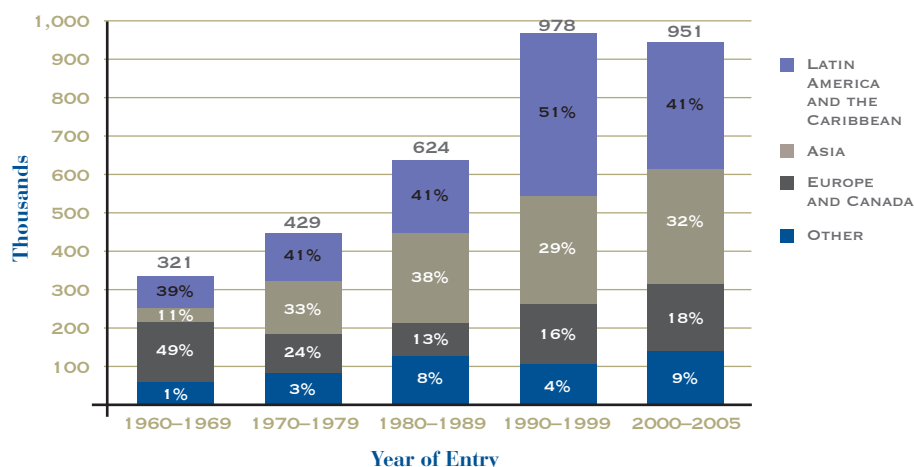
In addition to these major increases in the number of immigrants, the source countries of immigrants have been changing. As compared with the 1960s, the share of immigrants from European nations or Canada has declined from about half to under 20 percent, while the fraction

from Asian, Latin American, and Caribbean nations has increased from about half to nearly three-quarters.<sup>5</sup> Relative to the average American worker, immigrants from Latin America and the Caribbean are poorly educated, largely unskilled, and earn low wages when they enter the United States.

Even so, the overall mix of educational attainment of immigrants upon arrival in the United States has remained fairly constant over the last four decades. Figure 2 shows that the proportion of immigrants with a bachelor's degree has actually increased over the last 35 years;

FIGURE 1

Annual Number of Legal U.S. Immigrants by Decade and Region of Origin, 1960–2005



Source: Martin and Midgley, 2006, p. 3.

but otherwise the proportion of immigrants with advanced degrees and those with a high school degree or less has stayed approximately the same since before 1970. Recently, the percent of immigrants with a bachelor's degree or higher has increased, while those with a high school diploma or less has decreased.

However, as seen in Figure 3, educational attainment varies significantly based on an immigrant's region of origin. Educational attainment for immigrants from Latin America stands in stark contrast to the other regions of origin, with half arriving with less than a high school diploma. By contrast, about half of immigrants from Asia arrive with a bachelor's degree or higher.

A major question regarding immigrant education is how their educational attainment compares with that of non-immigrants. Figure 4 provides such a comparison.<sup>6</sup> The first set of bar graphs shows that about five times as many first generation immigrants, as compared with non-immigrants, have less than a ninth grade education. The second set of bar graphs shows that first generation immigrants are also less likely to have a high school degree.

However, as shown in the last set of bar graphs, first generation immigrants are actually more likely to have advanced degrees than non-immigrants. Clearly, the distribution of immigrants' educational attainment is complex:

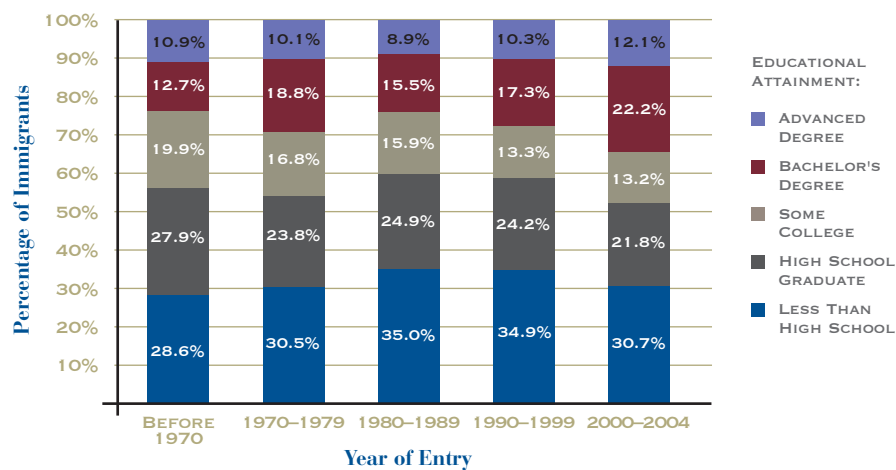
while nearly one-third of recent arrivals have less than a high school diploma, more than 10 percent have an advanced degree.

Another remarkable part of the immigrant experience depicted in Figure 4 is that second generation immigrants exceed the educational attainment of the first generation by a considerable margin.<sup>7</sup> In the case of advanced degrees (above

a bachelor's degree), they actually exceed the attainment of both first generation immigrants and non-immigrants. As we will see, education is one vehicle that immigrants use to help their children get ahead.

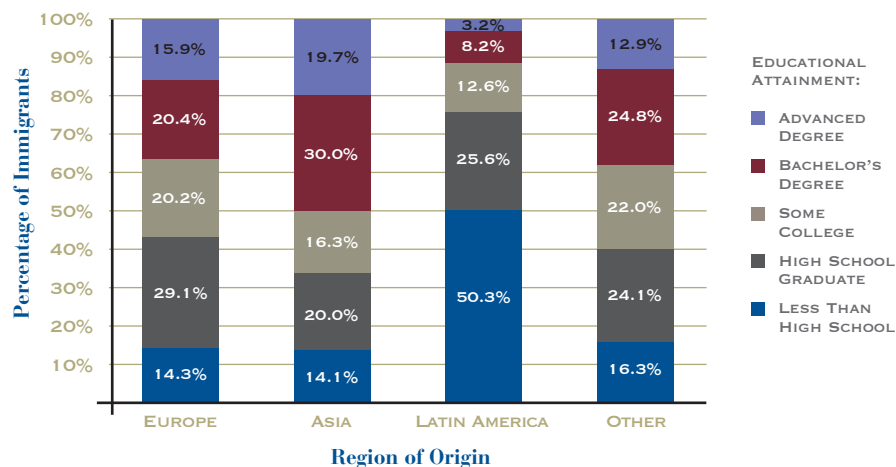
Further, education is one of the most important determinants of wages and income in the United States. According to the Census Bureau, in 2005 high school graduates earned

**FIGURE 2** Educational Attainment of First Generation Immigrants 25 Years and Over, by Year of Entry



Source: U.S. Census Bureau, 2005 Current Population Survey, Table 2.5

**FIGURE 3** Educational Attainment of First Generation Immigrants 25 Years and Over by Country of Origin, 2004



Source: U.S. Census Bureau, 2005 Current Population Survey, Table 3.5

about \$8,000 more than high school dropouts, college graduates earned about \$19,000 more than high school graduates with no college, and those with professional degrees earned about \$36,000 more than those with a bachelor's degree.<sup>8</sup>

## IMMIGRANT WAGES

Given the low educational attainment of a large number of immigrants, it is not surprising that average immigrant wages are low and falling relative to those of non-immigrants. Figure 5,

developed from recent work by George Borjas of Harvard University, shows the average hourly wages of first generation immigrants relative to non-immigrant workers in selected years covering six decades.

Relative wages of the first generation show steady decline. In 1940 the average first generation immigrant earned 5.8 percent more than the average non-immigrant worker, but relative wages fell to only 1.4 percent more in 1970, and then dropped precipitously by 2000

to almost 20 percent less than those of the typical non-immigrant worker.<sup>9</sup>

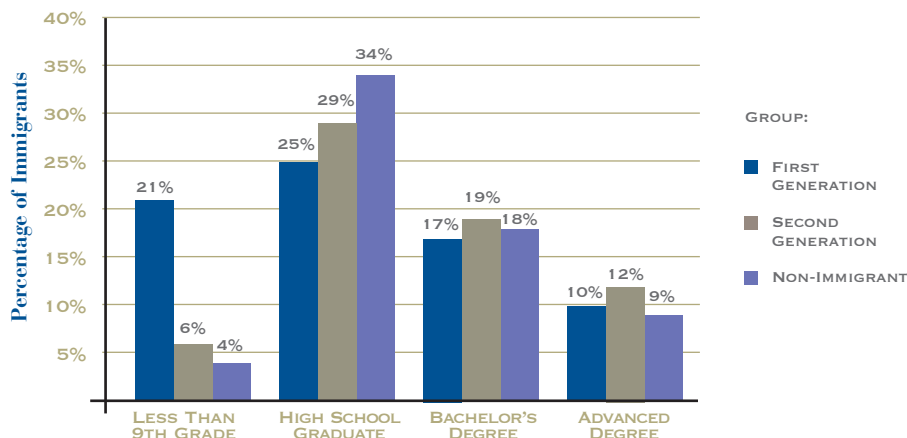
Figure 6 reveals another striking wage pattern, already suggested by the improved educational attainment of second generation immigrants illustrated in Figure 4: second generation immigrants not only exceed the wages of first generation immigrants but also exceed the wages of non-immigrant workers. This pattern demonstrates clearly that there is impressive upward economic mobility from the first to the second immigrant generation.<sup>10</sup>

But before we conclude that the great American wage escalator for immigrants is working well, we should note the pattern of relative wages for the second generation across the three time periods shown in Figure 6.<sup>11</sup> More specifically, relative wages of the second generation dropped consistently over the period from 17.8 percent to 6.3 percent above those of non-immigrant workers. Thus, the pattern of declining relative wages of first generation immigrants is associated with a similar pattern of declining relative wages in the second generation. Second generation mobility is still in operation, but the second generation is earning relative wages that are lower than those of previous second generation workers.

If the relative wages of both first and second generation immigrants are falling, the question arises: where might this pattern lead in the future? Figure 7 compares the relative wages

FIGURE 4

**Educational Attainment for First and Second Generation Immigrants and Non-Immigrants, 25 Years and Over, 2004**

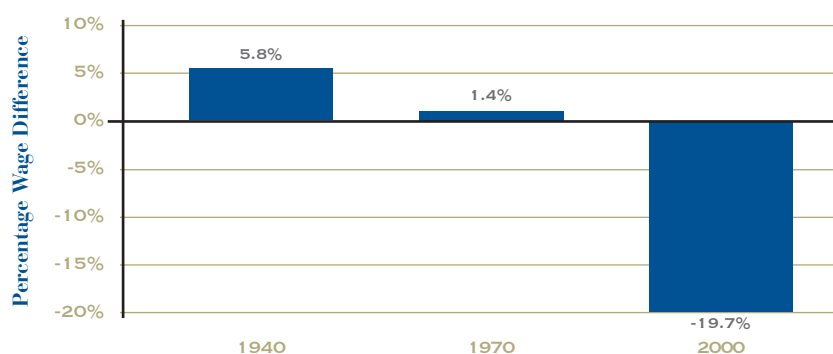


Source: U.S. Census Bureau, 2005 Current Population Survey, Table 5.5

Note: Percentages for each generation do not amount to 100. Data for "some high school" and "some college" are not included here.

FIGURE 5

**First Generation Age-Adjusted Wages Relative to Wages of Non-Immigrants, 1940, 1970, 2000**



Source: Borjas, 2006, p. 59.

of first generation immigrants in 1940 and 1970 with wages of workers in the second generation who are in the same cohort as the children of the respective 1940 and 1970 first generation workers.<sup>12</sup>

The first set of bar graphs, for example, compares the relative wages of the generation of foreign-born workers who were in the United States in 1940 with the relative wages of second generation workers who were in the United States 30 years later and were roughly the same age as the children of the 1940 cohort of first generation workers. Comparing the heights of the bars shows that the second generation in 1970 exceeded the relative wages of the parent generation by almost 9 percentage points.

However, three decades later, the relative wages of second generation workers were greater than those of the 1970 first generation workers by less than 5 percentage points.

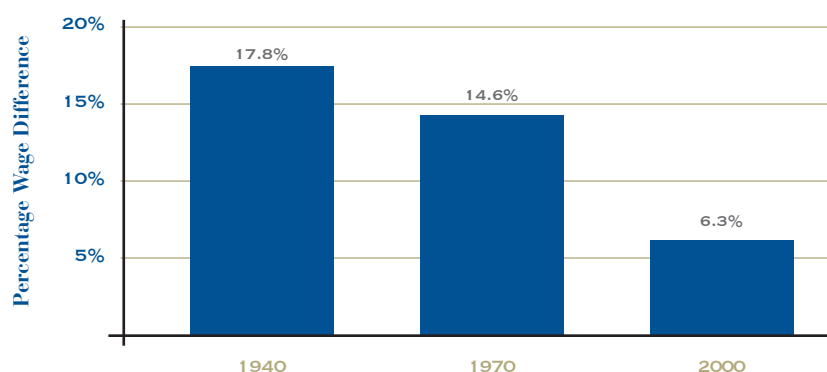
If the decline in second generation relative wages continues apace with the decline in first generation wages, we can expect that second generation workers in 2030 will earn substantially less than non-immigrants just as workers in their 2000 parent cohort did. If low wages persist into the second and subsequent generations for substantial numbers of immigrants, economic hardship may persist beyond the first generation and economic assimilation into American society may become more difficult.

A contentious debate has emerged over whether immigrants have an impact on the wages or employment levels of non-immigrants. The respective sides in the debate are led by Borjas, who argues that low-wage immigrants have a negative impact on poor non-immigrant workers, especially blacks, and David Card of Berkeley who argues that they do not.<sup>13</sup> The crux of the argument for Card and economists who agree with him is that immigrants not only supply labor, but they also consume goods and services. It follows, based on

the economic theory of supply and demand, that there is no inherent reason why immigrants should hurt non-immigrant workers. In a word, the great American job machine can accommodate millions of immigrants because their consumption will further stimulate the economy and the job machine.

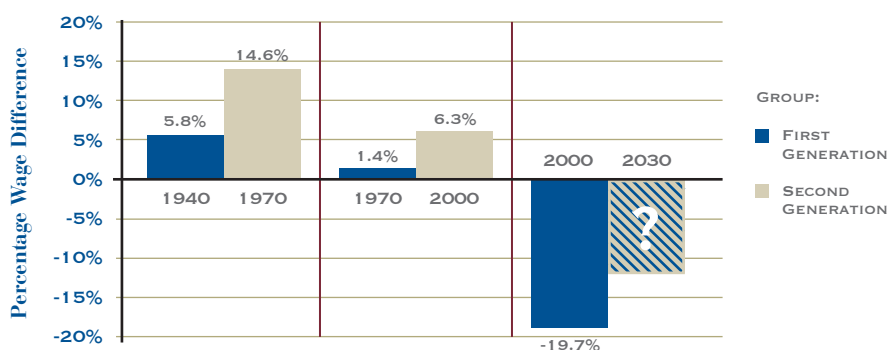
Another important argument on Card's side of the debate is that the American economy needs immigrants. A recent report by Rob Paral of the Immigration Policy Center shows

**FIGURE 6** Second Generation Age-Adjusted Wages Relative to Wages of Non-Immigrants, 1940, 1970, 2000



Source: Borjas, 2006, p. 59.

**FIGURE 7** First and Second Generation Age-Adjusted Wages Relative to Wages of Non-Immigrants



Source: Borjas, 2006, p. 59.

that immigrants are a major presence in about one-third of U.S. job categories and that most of these job categories would have contracted during the 1990s if it had not been for immigrants.<sup>14</sup> And as pointed out in a recent *New York Times Magazine* feature about the Borjas-Card debate, there are 21 million immigrants who hold jobs in the United States and only 7 million unemployed workers.<sup>15</sup> Thus, it cannot be the case that the overwhelming majority of immigrants took jobs away from Americans.

But the real issue, responds Borjas, is not the overall impact of immigrants on the economy; the issue is their impact on particular segments of the job market. Because recent years have seen an increase in immigrants (especially from Mexico) with low education and low skill levels relative to those of non-immigrants, the low-wage portion of the U.S. job market is disproportionately affected. Card responds with data showing that some cities with a large influx of immigrants actually saw increased wages at the bottom of the wage scale.

The most recent entrant in this ongoing and lively argument is a study published this year by Borjas along with his colleagues Jeffrey Grogger of the University of Chicago and Gordon Hanson of the University of California at San Diego, based on 40 years of U.S. Census Bureau data.<sup>16</sup> Examining the census employment data within skill groups and controlling for a

number of factors that might affect their results, the authors found that “as immigrants disproportionately increased the supply of workers in a particular skill group, the wage of black workers in that group fell, the employment rate declined, and the incarceration rate rose.” Linking immigrants with both black unemployment levels and incarceration rates, already delicate topics among scholars and policy makers, is likely to raise the volume of the Borjas-Card debate.

When economists who are greatly respected by their colleagues disagree sharply over an issue like the impact of immigration on employment and wages, it seems wise for outsiders to resist forming a strong conclusion and simply say, instead, that the jury is still out. Thus, we make no claims about whether immigrants have an impact on the wages of low skilled non-immigrants.

### IMPACTS OF IMMIGRATION ON INEQUALITY

Given that average relative wages of immigrants are falling, it seems likely that immigrants are contributing to widening income inequality in the United States. But as Robert Lerman of American University has argued, this standard view of the impact of immigrants on inequality is somewhat misleading because it ignores the impact of immigration on the economic status of immigrants themselves.<sup>17</sup>

Economists typically measure growth in income inequality by comparing some measure of the distribution of income at two points in time. These calculations invariably reveal that the growing income inequality in the United States is aggravated by the declining wages of each succeeding wave of immigrants.

However, because these calculations are based on random samples of the U.S. population at two points in time, they ignore the condition of immigrants before they arrived in the United States. Because of the rapid increase in immigration, the more recent sample will include more immigrants than earlier samples.

Moreover, because immigrants are increasingly from low-wage countries like Mexico, the immigrants selected in the more current sample will have, on average, lower education levels and lower relative wages than immigrants in the earlier sample. Thus, immigrants contribute to the growing economic inequality in the United States.

But Lerman’s point is that if we had a measure of the new immigrants’ wages in their native country, we would find that, on average, they have greatly improved their wages by entering the United States. The economist Mark Rosenzweig, for example, has recently estimated that Mexican workers with a high school degree earn seven times as much in the United States as in Mexico.<sup>18</sup>

Lerman recommends calculating the impact of the American economy on changes in measures of economic well-being and inequality by including estimates of the income immigrants would have received in their home country.<sup>19</sup> According to Lerman, such a calculation reveals that the growth of income inequality is about two-thirds less than it is when the income immigrants would have earned in their home country is ignored.

### IMMIGRANT MOBILITY

By considering immigrants' income before they enter the country we may conclude that the American economy provides a huge boost to the mobility of first generation immigrants. Indeed, this conclusion is consistent with the most basic rationale for immigration between nations throughout human history—the prospect of greater economic opportunity.

But what about the mobility of immigrants from various nations and their children once they reach the United States? To examine this question, we turn again to the seminal work of Borjas, who has developed a useful method for examining the intergenerational mobility of immigrant groups from various nations. First, he computes the relative wages (again, relative to non-immigrant workers) of male immigrants from selected nations in 1970 based on U.S. Census Bureau data. Then he repeats the computation for

second generation immigrants 30 years later for the same national origin groups. Table 1 compares the results for both generations of immigrants from selected countries.<sup>20</sup>

Borjas finds that immigrant groups from industrialized nations tended to earn more than average non-immigrant workers. Immigrants from France, for example, earned 19.8 percent more than average non-immigrant workers. By the second generation in 2000, the relative wages of workers from industrialized nations had moved closer to the average of non-immigrant workers. In other words, they experienced downward relative mobility in the second generation.

By contrast, first generation immigrants from less industrialized countries earned less than typical non-immigrant workers. For example, immigrants from Mexico earned almost 32 percent less than non-immigrants in 1970. Thirty years

later, second generation workers from less industrialized nations had also moved closer to the average wages of non-immigrant workers, but in this case by rising above relative first generation wages. In the case of second generation immigrants from Mexico, for example, relative wages moved from 32 percent less than non-immigrant workers in the first generation to only 15 percent less than non-immigrant workers in the second generation. With few exceptions, first generation immigrants from various nations start at different levels in the U.S. wage distribution and second generation workers from the respective nations show wage mobility by moving in the direction of mean wages—moving down if the first generation had wages above the mean and moving up if the first generation had wages below the mean.

Despite the considerable movement of wages between first and second generation immigrants, the question

TABLE 1

Age-Adjusted Relative Wages of Immigrants from Selected Countries

COUNTRY OF ORIGIN	RELATIVE WAGE OF IMMIGRANTS IN 1970	RELATIVE WAGE OF SECOND GENERATION IN 2000	WAGE IMPROVEMENT OR DECLINE IN SECOND GENERATION (PERCENTAGE POINTS)
Canada	18.5 %	16.8 %	-1.7 %
France	19.8	5.9	-13.9
India	30.8	27.1	-3.7
Germany	24.9	19.5	-5.4
Dominican Republic	-37.0	-18.9	18.1
Haiti	-21.7	10.6	32.3
Mexico	-31.6	-14.7	16.9
Jamaica	-22.8	1.2	24.0

Source: Borjas, 2006, p. 62.



arises of whether the characteristics of first generation immigrants influence the wages of the second generation. To examine the relationship between the wages of first and second generation immigrants, Borjas computes the intergenerational correlation between the relative wages of first generation workers from selected nations and those of second generation workers from the same nations.

He finds that, based on 30 national origin groups, the intergenerational correlation between the 1940 and 1970 generations is .42. The correlation between the 1970 and 2000 cohorts, based on 61 national origin groups, is similar.<sup>21</sup> These correlations across generations are comparable to those reported for native-born American families. In other words, non-immigrants and immigrants pass along approximately the same degree of economic advantage or disadvantage to their children. In common sense terms, according to Borjas, correlations of this magnitude mean that about 40 percent of the wage differences between any two national groups in the first generation persists into the second generation.

But what happens to these correlations if they are adjusted for the education level of the various national groups? Borjas finds that

the correlations in wages between the first and second generations are considerably diminished when adjusted for the education level of the various national groups. This finding suggests that one pathway by which the correlation in wages is passed on through the generations among the national groups is educational achievement. Given the low educational achievement of many immigrants now arriving in the United States, it might be expected that average wages in the second generation will continue to drop in the future.

Although today's immigrant population is arriving with a mix of educational backgrounds that are similar to that of earlier immigrants, the increase in the absolute number of immigrants with low levels of education, coupled with the relatively high correlation between the wages of first and second generation immigrants, suggest that it may be increasingly difficult for second generation immigrants to surpass the wages of non-immigrants. First generation immigrants certainly experience economic mobility by coming to the United States, but the mobility of second generation immigrants is constrained by the characteristics of first generation immigrants that

are passed to second generation immigrants, primarily education.

## CONCLUSION

It is a remarkable achievement, considering the low wages immigrants would have made in their own countries, that America offers such rich opportunities for immigrants to improve their income and standard of living. Further, second generation immigrants continue to earn more than first generation immigrants, though wages of second generation immigrants have been falling relative to those of non-immigrants over the last three generations. Moreover, the economic prospects of second generation immigrants are very much tied to the characteristics of first generation immigrants, most notably to level of educational attainment.

Economic assimilation appears to be working well, although the country is now in the process of incorporating a distinctly different, and lower-wage, immigrant population from that of previous generations. With wages in the United States strongly correlated to both education levels and to parental incomes, the children of low-wage, poorly educated immigrants may well have an uphill climb to continue reaching economic parity with non-immigrants.

# NOTES

<sup>1</sup> Martin and Midgley, 2006, p. 3. Most researchers who have tried to estimate the number of illegal entrants or the total number of illegal residents who live in the United States at any given moment would agree that it is impossible to get an exact count. Even so, some estimates are more reasonable than others. Most observers seem to agree that the most reliable numbers have been produced by Jeffrey Passel (2006) of the Pew Hispanic Center in Washington, D.C. Martin and Midgley use Passel's estimates. Although it receives little attention, the United States also has emigration. The Census Bureau estimates that between 1995 and 1997, 220,000 foreign-born residents of the United States emigrated to other countries each year. See U.S. Citizenship and Immigration Services, 2004.

<sup>2</sup> All data presented in this report, unless otherwise noted, are based on analysis of the U.S. Census Bureau Current Population Survey that includes both legal and illegal immigrants in the sample. However, the survey does not allow researchers to identify the legal status of immigrants and therefore cannot be used to analyze legal versus illegal immigrants.

<sup>3</sup> Borjas, 2006.

<sup>4</sup> Non-immigrants include residents of the United States who are third generation immigrants, as well as generations subsequent to the third generation. Reardon-Anderson, Capps, and Fix, 2006.

<sup>5</sup> Martin and Midgley, 2006.

<sup>6</sup> As noted above, non-immigrants include residents of the United States who are third generation immigrants, as well as generations subsequent to the third generation.

<sup>7</sup> During each of the years shown in Figures 4 through 7, the Census Bureau interviewed random samples of people residing in the United States. Because the interviews of first and generation immigrants were conducted during the same year, the second generation in each year cannot represent the children's generation of first generation immigrants. However, as shown in Figure 7, it is possible to compare the first generation in a given year with the second generation several decades later to gain a rough idea of how the offspring cohort of the earlier cohort of first generation immigrants are doing.

<sup>8</sup> U.S. Census Bureau, 2007, "Educational Attainment in the United States, 2006: Detailed Tables," Table 8.

<sup>9</sup> The data points in Figure 5 are log wage differentials multiplied by 100 to convert them to percentages. Borjas and Friedberg (2006) show that the relative wages of immigrants have increased somewhat in the last half of the 1990s due primarily to an increase in highly-educated immigrants such as engineers and doctors and to a decline in the wages of non-immigrant workers at the bottom of the wage distribution, primarily high school dropouts.

<sup>10</sup> Given that the years between 1940 and 2000 saw significant changes in the relative education, country of origin, and other characteristics of immigrants, the wage differences between first and second generation immigrants in Figures 5 through 7 reflect many differences between the two samples.

<sup>11</sup> The data points in Figure 6 are log wage differentials multiplied by 100 to convert them to percentages.

<sup>12</sup> Workers in the sample of second generation workers are not the actual children of the particular individuals in the first generation sample. In the year they were interviewed they were roughly the same age as children of first generation workers. The data points in Figure 7 are log wage differentials multiplied by 100 to convert them to percentages.

<sup>13</sup> Card and Lewis, 2007.

<sup>14</sup> Paral, 2005.

<sup>15</sup> Lowenstein, 2006.

<sup>16</sup> Borjas, Grogger, and Hanson, 2006.

<sup>17</sup> Lerman, 1999; and Lerman, 2003.

<sup>18</sup> Rosenzweig, 2006. There appears to be some disagreement among economists about these U.S.-Mexican wage differentials. Gordon Hanson, 2006, for example, has estimated that the wages of Mexican high school graduates who come to the United States are around three times greater than the wages of high school graduates who stay in Mexico. Even so, there is no disagreement that by moving to the United States, Mexicans and other workers from Latin American nations (and most other nations as well) can greatly increase their wages.

<sup>19</sup> Lerman's approach involves estimating immigrants' income at time 1 in relation to average income in their country adjusted for education and other individual characteristics. As his measure of inequality in the United States, Lerman uses Census Bureau data to compute the ratio of incomes at the 10th percentile to incomes at the 90th percentile; lower ratios indicate higher income inequality. For all families, the traditional approach of ignoring the income of immigrants at time 1 (in this case 1979) yields a Gini coefficient of .299 at time 1 and .344 at time 2 (1997), representing a substantial increase in inequality. By contrast, using Lerman's method of estimating what the income of immigrants would have been in their home country at time 1 reveals that the Gini coefficient at time 1 was .329, only slightly lower than the .344 at time 2.

<sup>20</sup> The data in Table 1 show a clear pattern of what statisticians call "regression to the mean." This term simply means that if the parent's generation has scores above or below the population mean, scores of the children's generation would tend to be closer to the mean. Thus, we would expect the relative wages of second generation workers from selected countries to be closer to the mean of all workers than the relative wages of the parent's generation. The probability of regression to the mean increases as average relative wages in the parent generation depart further from the mean of all workers. The countries presented in Table 1 are selected from a larger set of countries studied by Borjas. Not all the countries in Borjas's samples show regression to the mean.

<sup>21</sup> Borjas, 2006, p. 64. The intergenerational correlation differs somewhat from the intergenerational elasticity measure presented in other chapters, as explained in note 10 in Chapter II "Trends in Intergenerational Mobility." Note also that Borjas examines wages rather than income and uses differences between first and second generation immigrants by nation of origin as a rough proxy for data on father-son pairs.

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## VIII

# EDUCATION AND ECONOMIC MOBILITY

BY RON HASKINS, THE BROOKINGS INSTITUTION

Most Americans believe that the road to achieving the American Dream passes through the schoolhouse door. This chapter examines evidence of the returns to schooling in the American economy, changes in the average level of education by various groups of Americans during the twentieth century, and the role of education and family background in promoting economic mobility.

### RIISING EDUCATION LEVELS, INCREASING GAPS

Figure 1 shows the median annual family income since the mid-1960s

of high school dropouts, high school graduates, college graduates, and those with an advanced degree.<sup>1</sup> The figure shows striking differences in income by level of education. Completion of each degree from high school, to college, to professional or graduate leads to greater income. The gaps between each level of education are substantial—the gap between a high school degree and a college degree was over \$29,000 in 2005.

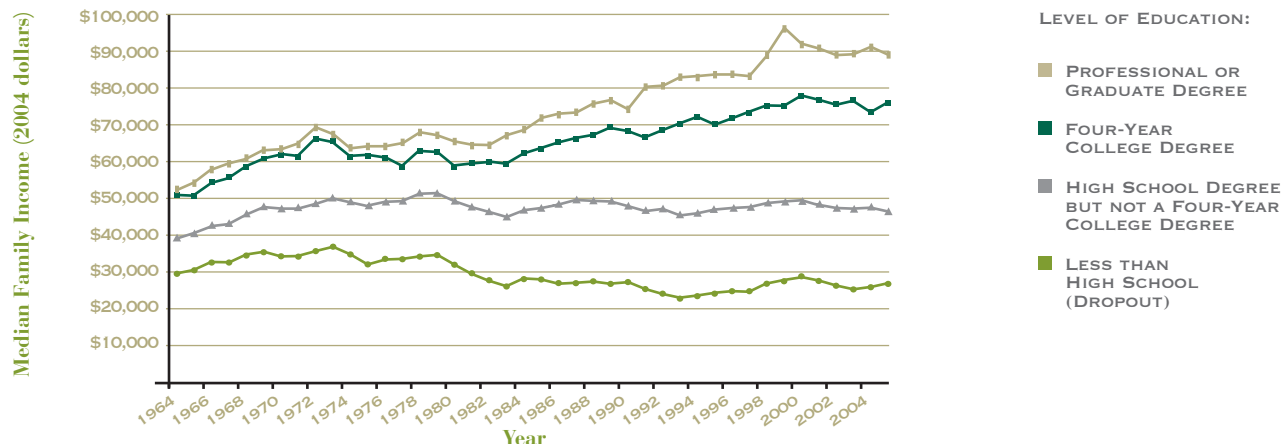
Equally interesting is the pattern of income changes over time. Although those with a high school degree earn considerably more than those without a high school degree, the income of

both groups has been more or less stagnant since at least the early 1980s. By contrast, those with a college degree, despite a few brief periods of decline or stagnation, increased their income by one percent per year over the period while those with graduate or professional degrees did even better.

The strong correlation between education and income supports the belief held by most Americans that getting an education is a good way to get ahead. No wonder, then, that the educational attainment of Americans increased dramatically over the course of most of the twentieth century.

FIGURE 1

Median Family Income of Adults Ages 30–39  
with Various Levels of Educational Achievement, 1964–2005



Note: All men and women ages 30–39, including those with no personal income, are included in these estimates.

Source: Brookings tabulations of data from the Annual Social and Economic Supplement to the CPS, 1965–2006.

However, the educational attainment was not uniform. Figure 2, based on an extensive analysis of educational trends during the twentieth century by Claude Fischer and Michael Hout of the University of California at Berkeley, shows the years of schooling completed by Americans at the 80th percentile, the median, and the 20th percentile of the education distribution.<sup>2</sup> At every level, years of schooling rose continuously for the first seven decades of the twentieth century.

But note that the median, after two decades of catching up with the top 20 percent before World War II, fell well below the top 20 percent over the three decades following the war and the century ended as it began—with big gaps between the top and the middle and bottom of the distribution.

The increase in educational attainment during much of the twentieth century is also reflected in high school graduation rates for all demographic groups. As indicated in Figure 1, although the economic return to achieving a high school degree has been stagnant for the past 30 years, a high school degree provides a substantial boost to income. The panels in Figure 3 show changes during the twentieth century in the percentage of men and women and various ethnic groups who graduated from high school.

A striking feature of both panels is the impressive increases in high

school graduation rates among all demographic groups. Unfortunately, however, blacks and Hispanics made only modest progress in closing the gap between themselves and both whites and Asians.

Figure 4 shows that the growth in college graduation rates is similar in many respects to the growth in high school graduation rates, albeit at a much lower level: in 2000, about 25 percent of Americans had a college degree while 85 percent had a high school degree. Whites and Asians have opened a large gap between themselves and both blacks and Hispanics. These gaps appeared early in the century and expanded during the course of the century. Thus, despite the fact that blacks and Hispanics made good progress in increasing their college graduation rates, they did not increase rapidly enough to keep up with whites and Asians. By 1970, the share of whites who graduated from college was twice the share of blacks and

Hispanics, while Asians were three times as likely to earn a college degree. Since 1970, both gaps, but especially the gap between Asians and all the other groups, have opened even further.

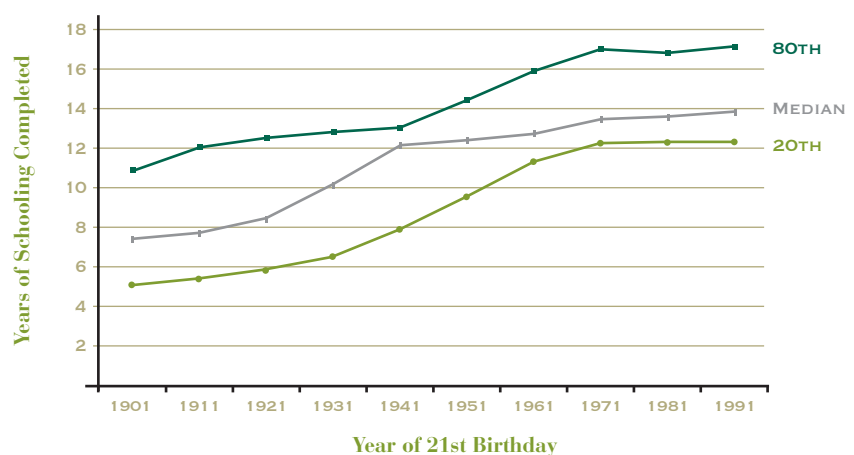
## EDUCATION AND ECONOMIC MOBILITY ACROSS GENERATIONS

If, as shown in Figure 1, education contributes so substantially to income, it seems reasonable to expect that it could also contribute to economic mobility across generations. Moreover, it might be expected that education would, as ironically as it might seem, be a barrier to mobility—or at least an important factor in accounting for why some groups get or stay ahead while others are left behind.

To understand the relationship between educational attainment and economic mobility, we consider two key questions.

FIGURE 2

Years of Schooling Completed by Adults at the 20th, 50th, and 80th Percentiles, 1900–2000



Source: Fischer and Hout, 2006, p. 11.

First, does educational attainment contribute to economic mobility? That is, do adult children earn more than their parents? If so, are those with more education more likely to surpass their parents' income than those with less education?

Second, does education contribute to relative economic mobility? That is, does educational attainment help the second generation move up the

income scale relative to the position occupied by others in their generation?

Figure 5, based on the Panel Study of Income Dynamics (PSID), tracks the mobility of adult children by comparing their income at roughly age 40 with that of their parents at about the same age.<sup>3</sup> In the three decades between measurement of the parents' income (averaged over the period 1967–1971) and that

of their adult children (averaged over selected years between 1995 and 2002), median family income grew by 29 percent, after adjusting for inflation.<sup>4</sup> It follows that there was likely to be substantial income mobility between generations over the period. After all, somebody had to get that additional money.

The bar graphs in Figure 5 show that many adult children, regardless

FIGURE 3

## High School Graduation Rates by Gender and Ethnic Group



Source: Fischer and Hout, 2006, p. 13.

FIGURE 4

## College Graduation Rates by Gender and Ethnic Group



Source: Fischer and Hout, 2006, p. 15.



of whether they have a college degree and regardless of their parents' income quintile, had higher median family incomes than their parents.

Clearly, there was significant economic mobility across these two generations—mobility that was made possible largely by economic growth during the period.

In addition, more of those with a college education in each quintile exceeded their parents' income than did those without a college education.<sup>5</sup> As shown by the “All” bars, 74 percent of adult children with a college degree had incomes greater than their parents, while 63 percent of adult children without a college education had incomes greater than their parents.

Both adult children with and without college degrees were more likely to exceed their parents' income if their parents were lower in the income distribution as shown in Figure 5. In the case of adult children with a college education, for example, 96 percent of adult children with parents in the bottom quintile exceeded their parents' income, but only 57 percent of those with parents in the top quintile exceeded their parents' income. Those in the middle three quintiles fell between 79 and 86 percent.<sup>6</sup>

Figure 5 shows there was substantial upward mobility between the parental generation of the 1960s and 1970s and their adult children and that this mobility was more likely to occur if

parents had lower income and if their children attained a college education. From these findings it follows that both education and family background played a role in accounting for the degree of mobility between generations.

### Education and Relative Mobility

Besides affecting whether adult children earn more than their parents, educational attainment affects how adult children move up or down the income distribution relative to their peers.

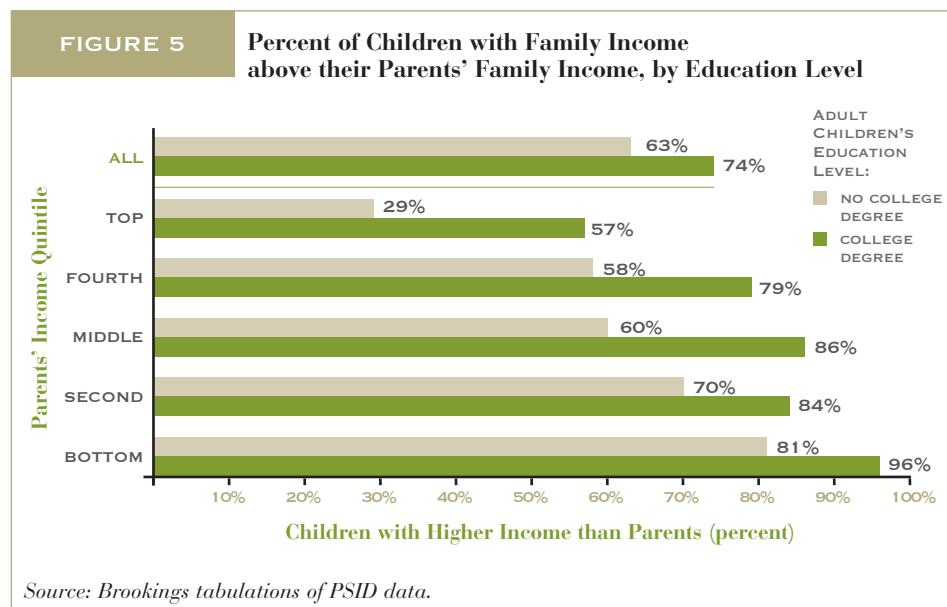
To understand this relative movement, we divide the distributions of parental income and adult child income into quintiles of equal size based on family income. We then count the number of adult children from each parental income quintile who land in each of the five quintiles defined by the incomes of adult children in their generation. Figure 6, based on the PSID, shows the income quintile

location of adult children relative to the income quintile location of their parents. Separate charts are presented for adult children with and without a college degree.

Consistent with findings described in other chapters, both sets of bar graphs show considerable relative economic mobility between generations. Regarding adult children without a college degree, reading from the bottom to top quintiles of parental income respectively and computing the sum of all adult children who moved out of their parents' income quintile, we see that 55 percent, 76 percent, 77 percent, 69 percent, and 77 percent of adult children move up or down relative to their parents' income quintile; that is, they land in an income quintile in their generation that is different than the income quintile occupied by their parents.

### The role of a college degree.

Note, however, the difficulty that



adult children had moving out of the bottom quintile. Without a college degree, 45 percent of adult children with parents in the lowest income quintile remained at the bottom, more than twice the level that would be expected if there were no relationship between parents' and adult children's income. By contrast, only 16 percent of adult children with a college degree remained in the bottom quintile.<sup>7</sup> In this case, education contributed to a boost in economic status for adult children from poor families.

Another solid piece of evidence that college contributes to relative economic mobility is the finding that adult children of parents in all five quintiles are much more likely to make it to the top two quintiles if they achieve a college degree. Only 14 percent of the adult children without a college degree from the bottom quintile of parental income reach the top two quintiles. By contrast, 41 percent of adult

children from the bottom quintile make it to the top two quintiles if they earn a college degree.<sup>8</sup>

Achieving a college degree also helps those born into wealthier families retain their high position. By finishing college, the adult children of parents in the next-to-top income quintile improve their chances of staying in the top two quintiles from an already considerable 47 percent without a college education to 75 percent; the respective figures for adult children from the top quintile are 43 percent and a whopping 81 percent.

These analyses point to an important role for education in helping adult children from both relatively poor families and relatively wealthy families move up the income distribution relative to their peers.

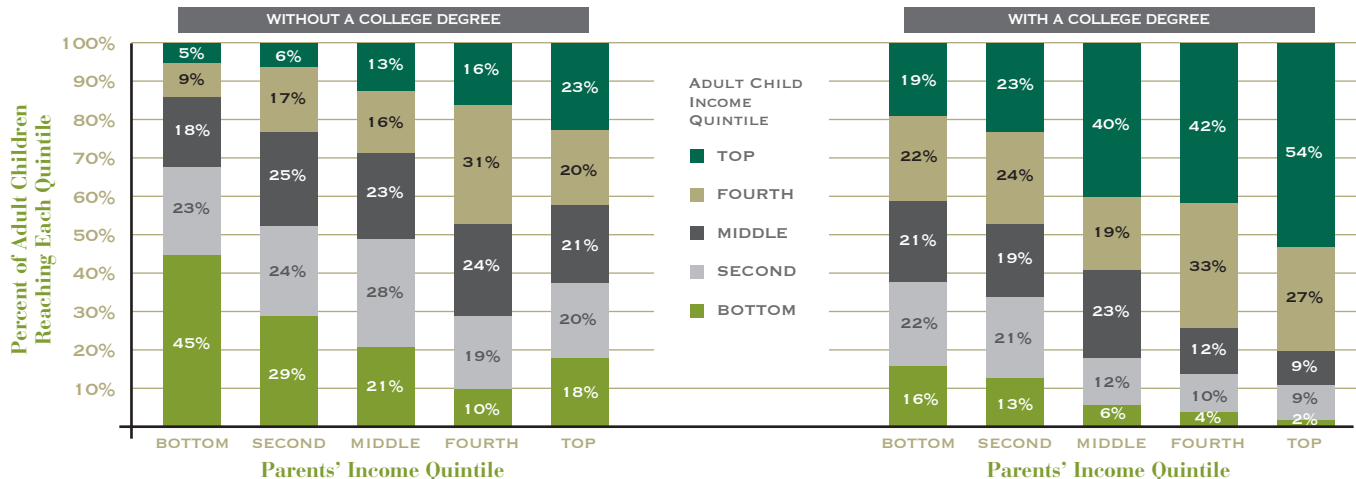
### The role of family background.

On the other hand, one of the ways

family background contributes to the economic success of adult children is that relatively wealthy parents can help their children get a good education. In fact, if it were not for the nation's education system, it might be more difficult for wealthy parents to pass along their income advantage to their children. Without a college education, only 23 percent of the adult children of parents in the top quintile themselves make it to the top quintile. This 23 percent is only a little higher than would be expected if the children of wealthy parents were equally likely to wind up in all five income quintiles. By contrast, with a college education 54 percent of the adult children of parents in the top quintile themselves make it into the top income quintile.<sup>9</sup> Family background is important, but adult children from the bottom can move up if they attain a college degree, and adult children from the top risk falling if they do not attain a college degree.

FIGURE 6

Chances of Getting Ahead for Children with and without a College Degree, from Families of Varying Income



Source: Brookings tabulations of PSID data.

Perhaps the most dramatic example of the importance of family background is shown by comparing adult children of parents in the top quintile who did not attain a college degree with adult children of parents in the bottom quintile who did attain a college degree. Children of parents in the top quintile have a 23 percent chance of winding up in the top quintile even though they fail to earn a college degree. Adult children of parents in the bottom quintile have only a 19 percent chance of winding up in the top quintile even when they get a college degree. Hard work can help students from poor families get ahead, but children from wealthy families nonetheless seem to have an advantage.

Given the powerful effect of a college education on the income of adult children from all levels of family income, the effects of family background and college education could be difficult to separate if parents with more income are more likely to have children who attain a college degree. Figure 7, which is similar to many other reports in the literature, shows that wealthier parents are indeed more likely to have children who attain a college degree.<sup>10</sup> Only 11 percent of children with parents in the bottom income quintile attain a college degree as compared with 53 percent of children with parents in the top income quintile. These results are consistent with the conclusion that one way relatively wealthy parents pass along their advantages to their children is by ensuring that they attend and graduate from college.

### DOES EDUCATION INCREASE MOBILITY SUFFICIENTLY?

The evidence shows that both education and family background have an impact on absolute and relative mobility. Despite the fact that family background helps adult children get ahead or stay ahead, high educational attainment can make a difference by boosting the fortunes of poor children and allowing them both to earn more than their parents and even to surpass the income of many of their peers from wealthier families. Because education has the potential to boost the economic mobility of poor children, it is important to ask whether the nation's educational systems do enough to promote economic mobility.

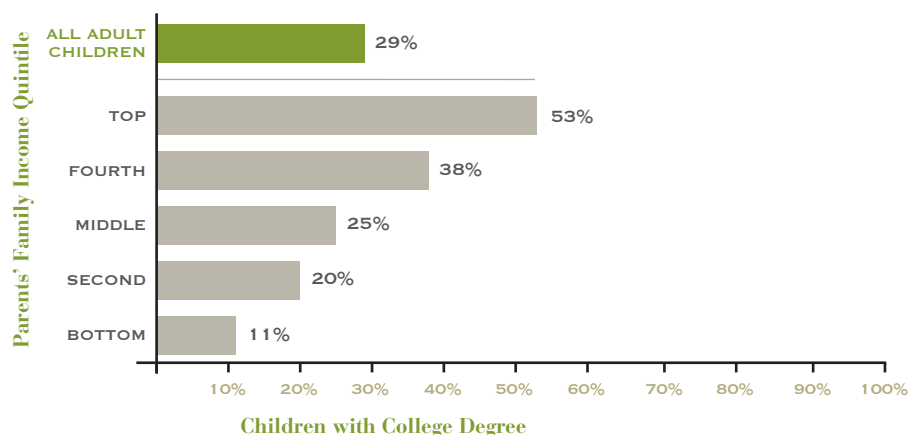
When they believe the game is not rigged, Americans generally are not alarmed by the nation's growing income inequality: Americans want

to be certain that everyone who works hard and plays by the rules has a decent shot at a good education and the income mobility that will result in most cases. Although it would be difficult to achieve consensus on precisely how much economic mobility would be ideal, most Americans would probably agree that more mobility is good and that it would be consistent with American values if more children from low-income families had a better chance of moving up the economic ladder—especially through educational achievement—than they do now.<sup>11</sup>

Thus, it seems fitting that at least since the Civil War, parents, the public, and politicians have made great efforts to create educational institutions that would promote economic growth and give all children a good chance to achieve economic mobility. Those efforts have produced good results: as we have seen, the twentieth century was marked by

FIGURE 7

Percent of Children with a College Degree by Parents' Family Income Quintile, 2005



Source: Brookings tabulations of PSID data.

huge increases in the average level of education, and this improvement was characteristic of both males and females and of all racial and ethnic groups. Even so, substantial differences in educational attainment remain, with blacks and Hispanics trailing badly behind whites and Asians, and with children from low-income families trailing as well.

The question remains: Can the nation's educational institutions do more to give children from families with widely different incomes and children from all ethnic and racial groups an equal opportunity to advance? To answer this question, we examine the evidence on the effectiveness of preschool education, K-12 public education, and college and university education in boosting economic mobility.

### **Preschool Education<sup>12</sup>**

There is now strong evidence that performance differences on tests of intellectual ability between children from poor and minority families as compared with children from more advantaged families are apparent by three years of age.<sup>13</sup>

To address these gaps in learning during the preschool years and in intellectual achievement and social behavior once children enter the schools, the fields of preschool education and developmental psychology have long believed that high-quality preschool programs can ameliorate both the gaps in readiness for schooling and in school achieve-

ment. In addition, they believe quality preschool programs can have positive impacts on development that show up throughout the child's school years and even into adulthood.<sup>14</sup>

How solid is the evidence that these preschool optimists are correct? Many studies have shown that preschool can have immediate impacts on test scores and social behavior; a large, but smaller, number of studies have shown that high-quality programs can produce impacts that last through the elementary school years, especially by reducing placements in special education classes and reducing grade retentions; and at least three major longitudinal studies have shown that high-quality preschool programs can have lasting effects on school performance as well as on important developmental milestones related to economic mobility.<sup>15</sup>

Table 1, taken from the work of two leading researchers, summarizes the impacts of three of the best preschool programs and Head Start on teen parenting rates, adolescent well-being, criminal activity, and the net earnings gain in adulthood from participation in these high-quality programs.

It is not difficult to conclude that the types of impacts of preschool programs summarized in Table 1 would serve to increase economic mobility. If young boys and girls can avoid teen pregnancy, arrests and incarceration, drug use, or serious health problems, their chances of increasing their employment and earnings would clearly be enhanced.

Even more impressive, all three of these studies produced direct estimates of net earnings gains of adult children who had participated in their respective preschool program. All are in excess of \$30,000, and one reaches nearly \$40,000.

The results from these three remarkable studies support the conclusion that high-quality preschool can produce a range of positive outcomes on children's development, not the least of which is boosting their economic mobility. However, the most telling criticism of this optimistic conclusion is that two of the programs were small scale (less than 125 families each), leading some researchers to suggest that these compelling results might not generalize to a larger program, let alone a national preschool program that could help all or nearly all poor children.

The third study, the Chicago Child-Parent Centers, was conducted with well over 1,500 children and was part of the routine operation of the Chicago Public Schools. That major impacts relating to economic mobility could be achieved by a preschool program as large as the Chicago Child-Parent Centers is encouraging. On the other hand, a recent national evaluation of Head Start, a program with national scope, found modest impacts on school readiness measures and social behavior at the end of the program.<sup>16</sup> There is some evidence that Head Start produces long-term effects,<sup>17</sup> but the results of the national evaluation raise doubts about the size and potential

permanence of the gains produced by Head Start. As shown in Table 1, there is no evidence that Head Start produces the effects on earnings achieved by the big three model programs.<sup>18</sup>

Most of those who study preschool programs agree that the evidence that preschool programs produce immediate impacts on development is overwhelming but that the evidence for longer-term impacts is more tenuous. Very good studies show that remarkable long-term impacts are possible, but whether a program of national scope would produce large impacts is less certain. As two leading preschool researchers concluded after a thorough review of the evidence, expectations about the impact of preschool on economic mobility “should be modest.”<sup>19</sup>

### K-12 Education<sup>20</sup>

Since publication of the justly famous Coleman Report in 1966, an enormous body of literature has accumulated that reinforces the Coleman conclusion that the greatest single influence on school achievement is family background.<sup>21</sup> Figure 8 provides a clear picture of the influence family background exerts on school achievement.<sup>22</sup> Based on the National Assessment of Educational Progress, the figure shows that at every measurement point between 1978 and 2004, 17-year-olds who had parents with higher levels of education out-performed adolescents who had parents with less education.

Of the four levels of parent education (high school drop-out, high school graduate, some college, college degree), there was no overlap in the scores of their children at any of the nine testing occasions between 1978 and 2004.<sup>23</sup> Fortunately, there was some progress: those whose parents did not graduate from high school closed part of the gap between their math scores and the scores of the other three groups.

These differences in educational attainment between poor and more

advantaged students are important for understanding economic mobility because, as Figure 1 illustrates, there is substantial evidence of a strong correlation between schooling and earnings. But as they now function, the nation’s K-12 school systems provide only a modest boost to poor and minority children’s chances of moving up the economic ladder.<sup>24</sup>

Of course, some children manage to use the public schools as a stepping-stone to further education and then

TABLE 1

Effects of Selected Preschool Programs on Adolescent and Adult Behaviors

PRESCHOOL PROGRAMS AND OUTCOMES	CONTROL OR COMPARISON GROUP	GROUP RECEIVING PRESCHOOL PROGRAM
<b>Teenage Parenting Rates:</b>		
Abecedarian	45 %	26 %
Perry Preschool	37	26
Chicago Child-Parent Centers	27	20
<b>Well-being:</b>		
Health problem (Perry Preschool)	29 %	20 %
Drug user (Abecedarian)	39	18
Needed treatment for addiction (Perry Preschool)	34	22
Abortion (Perry Preschool)	38	16
Abuse/neglect by age 17 (Chicago Child-Parent Centers)	9	6
<b>Criminal Activity:</b>		
Number of felony violent assaults (Perry Preschool)*	0.37	0.17
Juvenile court petitions (Chicago Child-Parent Centers)	25	16
Booked or charged with a crime (Head Start)		12 percentage points lower
<b>Net Earnings Gain from Participating in Early Childhood Programs:</b>		
Abecedarian		\$35,531
Perry Preschool		\$38,892
Chicago Child-Parent Centers		\$30,638
Head Start		No effect

\*These data entries mean that the average child in the comparison group committed .37 felony assaults while the average child in the program committed only .17 assaults.

Table entries are percentages unless otherwise noted.

Source: Barnett and Belfield, 2006, p. 84.

to economic advancement, but on average the K-12 schools do not do much to boost relative mobility. One recent review concluded that the “U.S. public schools tend to reinforce the transmission of low socioeconomic status from parents to children.”<sup>25</sup>

This conclusion should be tempered somewhat by the finding, shown clearly in Figures 5 and 6 above, that some children from poor families make it into college and that many of the students from poor families who graduate from college will move ahead of their peers from more advantaged families. Although we might wish that the public schools did more to boost the prospects of students from poor families, there is some reason to believe that the schools could become more effective in the future. Since at least the 1983 publication of *A Nation at Risk*, a prominent report that grabbed headlines by concluding that American schools were failing miserably, public education has been more or less in a state of permanent

reform.<sup>26</sup> Major experiments have been launched to study classroom size, teacher quality and preparation, school accountability for achievement, new reading and math programs, vouchers, charter schools, and many other reforms.

In addition, the federal No Child Left Behind Act of 2001 imposed major accountability requirements on public schools and threatened serious penalties against schools that failed to perform. Further, to improve the quality of educational research, in 2002 Congress created the Institute of Education Sciences which now funds a host of well-designed, large-scale studies of educational interventions.

Despite all these reforms, as shown by Figure 8, educational achievement for the nation as a whole has not improved much. Moreover, the achievement gaps between students from poor or minority families and students from wealthier or white

families have closed only modestly.<sup>27</sup> The conclusion that public K-12 education does little more than reinforce the differences children bring to the schools seems apt.

Nonetheless, the American K-12 education system has seldom been under such pressure to perform, research on education has never been as abundant or of as high quality as it is today, and the public schools have probably never had as many innovations under way as they do now. It is possible to remain hopeful that the future will bring more effective ways of improving the educational achievement of all students.

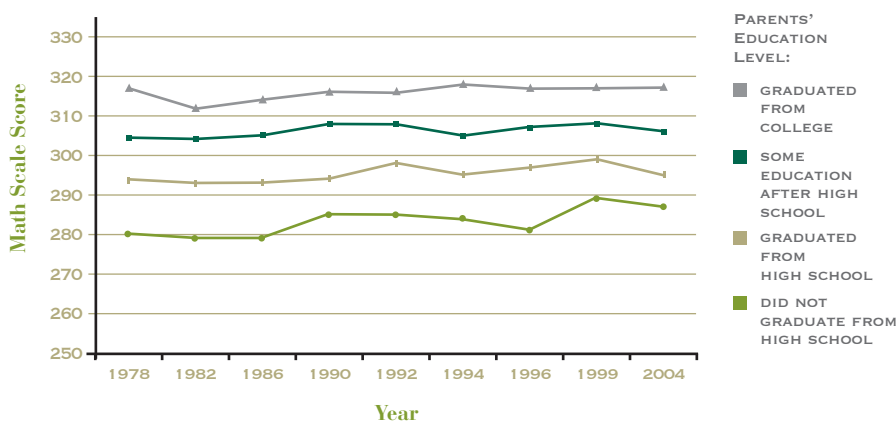
### Colleges and Universities<sup>28</sup>

Adults with a college education have much higher family income than high school dropouts or high school graduates. There is also strong evidence that a college education boosts economic mobility of adult children from poor and low-income families. It should follow that if adolescents from poor and low-income families manage to attend and graduate from college at high rates, income mobility in the United States would receive a dramatic boost. But as we have seen (Figure 7), adolescents from poor families are much less likely to attend college than are adolescents from wealthier families.

Figure 9, based on work conducted at Harvard,<sup>29</sup> shows the percentage

FIGURE 8

Trends in Average Mathematics Scores for 17-Year-Olds by Parents' Highest Level of Education, 1978–2004



Source: National Assessment of Educational Progress Data Explorer.



of students from the top and bottom quartiles of family income who entered a vocational or two-year college or a four-year college. Although children from low-income families were more likely to enter two-year institutions than children from wealthier families, the evidence that these institutions boost subsequent employment and income is modest.<sup>30</sup> By contrast, children from wealthier families were more than twice as likely to enroll in four-year colleges, which greatly increases the likelihood that their earnings would place them in the upper income quintiles.

Differences in college graduation rates between children from poor and more advantaged families are even greater than differences in college enrollment. Researchers at the University of Wisconsin used the PSID to examine the probability that students with family income in the bottom quartile, as compared with students from families in the top quartile, would attend and would graduate from a four-year college. Although both their data set and their methods were different than those used in the Harvard study, their findings on enrollment in four-year colleges—22 percent versus 28 percent for poor students and 71 percent versus 66 percent for wealthier students—are roughly similar.

But the Wisconsin study found an even greater difference in college graduation rates. Less than 6 percent of students from the bottom income

quartile, as compared with over 42 percent of students from the top quartile, actually graduated from college. Thus, although college would have a major impact on the jobs and incomes of students from poor and low-income families, relatively few of them attend college and even fewer of them graduate.

Part of the reason for lower college attendance and completion by students from low-income families may be that they are less prepared for college. As our review of evidence on the achievement levels of poor students from at least the age of three shows, these students on average perform well below the level of students from wealthier families.

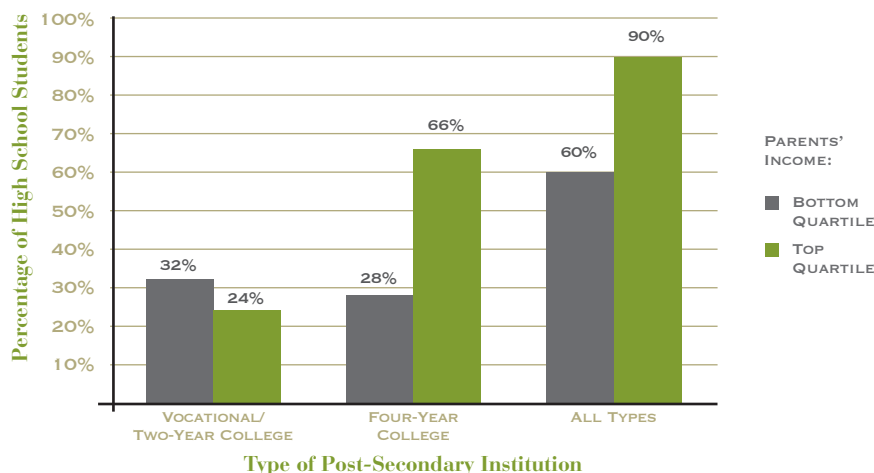
Even so, recent studies have shown that a large number of students from poor families have high SAT scores yet do not attend good four-year colleges.<sup>31</sup> Although low educational achievement is certainly one reason

many students from poorer families do not attend four-year colleges, there must be other factors at work, for a large number of academically qualified students from poor families are not attending four-year institutions. Even those who do enter these institutions have a much lower completion rate than their ability would predict.

A recent exhaustive review of the evidence showed that at every step in the process of preparing for, applying to, attending, and graduating from four-year universities, students from poor families are at a substantial disadvantage.<sup>32</sup> They are ill prepared for college by their high schools; they have less knowledge about and receive less help in searching for appropriate schools and filling out the application forms; and they have more difficulty applying for and receiving financial aid (which they need more than do students from wealthier families). Thus, like preschool education and

FIGURE 9

Percentage of High School Class of 1992 Enrolled in Various Postsecondary Institutions



Source: Ellwood and Kane, 2000, p. 286.



K-12 education, the nation's colleges and universities contribute less than they might to the economic mobility of disadvantaged students.

## CONCLUSION

Previous chapters have shown that family background exerts a strong influence on the position adult children reach in the income distribution and on both their absolute and relative mobility. However, the evidence presented here shows that education can boost the mobility of children from poor and low-income families (and from wealthier families as well), because each additional level of attainment, from a high school degree, to a college degree, to a professional or graduate degree adds substantially to income.

These effects are powerful enough to boost the income of adult children from relatively poor families not only well past the income achieved by their parents but also past the income achieved by many of their peers with more advantaged family backgrounds who did not obtain equivalent education.

While the American faith in the capacity of education to boost economic mobility is well placed, there is a complicating factor. At every level from preschool, to the K-12 system, to the nation's college and universities, education has only modest economic impacts on the average low-income child or adolescent. Although education can and sometimes does boost the achievement and later the income

of children from relatively poor families, the average effect of education at all levels is to reinforce the differences associated with the family background that children and adolescents bring with them to the classroom.

There is good reason to expect that education will continue having only a moderate impact on economic mobility in the United States until more poor children develop school readiness skills during the preschool years, until K-12 schools are more effective in imparting basic skills and in helping more poor children complete high school, and until more poor students enter and complete college.

# NOTES

<sup>1</sup> Social scientists are careful not to draw causal inferences from correlational data of the type shown in Figure 1. The major reason Figure 1 does not prove that education causes higher income is that, although education and family income are correlated, other variables besides education that are correlated with education could account, at least in part, for the observed correlation. For example, people with more education tend to come from families with more income and education, to marry people who also have higher education and income, to have more stable marriages, and to live in better neighborhoods. All of these factors may contribute to the relationship between education and income shown in Figure 1.

<sup>2</sup> In Figures 2, 3, and 4, the data points shown on the abscissa include people who turned 21 in each of the respective years and were between ages 30 and 59 regardless of which census contained data for individuals who met the age criteria. See Fischer and Hout, 2006. Figures 2, 3, and 4 include data only from native-born Americans regardless of ethnic background.

<sup>3</sup> These analyses are based on the Panel Study of Income Dynamics (PSID). PSID investigators have repeatedly interviewed a sample of families and their descendants since 1968, allowing comparison of the children's income as adults with their family's income during childhood. To reduce the effects of year-to-year fluctuations in income, total family incomes of the adult children are averaged across five recent years (1995, 1996, 1998, 2000, and 2002) and compared to the 5-year averages of their parents' income in the period 1967–1971. The sample used here includes 2,367 individuals. The mean age of adult children when their income was measured was 39.4; the mean age of parents was 40.9. For further details, see Appendix A.

<sup>4</sup> After 1996, the PSID interviewed its sample every second year rather than every year in order to save money. Because we wanted to average adult children's income over five years as we had done with parents' income, it took more years to accumulate five years of income data.

<sup>5</sup> The differences between adults with and without a college education are statistically significant overall and for each of the five quintiles of parents' income.

<sup>6</sup> The difference between the bottom quintile and middle three quintiles in the percentage of college graduates who surpass their parents' income (96 percent compared to 84 percent, 86 percent, and 79 percent) is statistically significant under a joint test, but not all of the individual comparisons are statistically significant.

<sup>7</sup> The difference between 45 percent and 16 percent is statistically significant.

<sup>8</sup> The difference between 14 percent and 41 percent is statistically significant.

<sup>9</sup> The difference between 23 percent and 54 percent is statistically significant.

<sup>10</sup> See note 29.

<sup>11</sup> Jencks and Tach, 2006. Although parents might agree in the abstract that more mobility is good, parents with high incomes will nonetheless do everything they can to prevent downward mobility from striking their own children.

<sup>12</sup> This section is based in part on Barnett and Belfield, 2006.

<sup>13</sup> Lee and Burkam, 2002.

<sup>14</sup> Haskins, 2006; Sawhill and Ludwig, 2007; Karoly, Kilburn, and Cannon, 2005; Lazar et al., 1982.

<sup>15</sup> These three major studies are Campbell et al., 2002; Reynolds et al., 2001; Schweinhart et al., 2005. See also the references in note 14.

<sup>16</sup> Westat, 2005.

<sup>17</sup> Garces, Thomas, and Currie, 2002; and Currie and Neidell, 2007.

<sup>18</sup> Many Head Start advocates would argue that Head Start could produce greater impacts if teachers were better trained and if regulations on quality were more effectively enforced.

<sup>19</sup> Barnett and Belfield, 2006, p. 91.

<sup>20</sup> This section is based in part on Rouse and Barrow, 2006.

<sup>21</sup> Coleman et al., 1966; Jencks and Phillips, 1998; and Mosteller and Moynihan, 1972.

<sup>22</sup> National Center for Education Statistics, 2005.

<sup>23</sup> Similarly, in an analysis of the National Education Longitudinal Study of 1988, Rouse and Barrow, 2006, found striking differences in the expected direction between students from families in the lowest and highest quartiles of socioeconomic status on several measures including test scores, share of students reporting being held back in grade, school dropout rates, and share graduating from high school.

<sup>24</sup> Sawhill, 2006.

<sup>25</sup> Rouse and Barrow, 2006, p. 116.

<sup>26</sup> National Commission on Excellence in Education, 1983.

<sup>27</sup> Murnane, 2007.

<sup>28</sup> This section is based in part on Haveman and Smeeding, 2006.

<sup>29</sup> Ellwood and Kane, 2000. The Ellwood and Kane study is based on data from the High School and Beyond study.

<sup>30</sup> Haveman and Smeeding, 2006.

<sup>31</sup> Carnevale and Rose, 2004; and Winston and Hill, 2005.

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## APPENDIX A The PSID Sample and Family Income

The **sample** for this analysis is 2,367 individuals who were between the ages of 0 and 18 in 1968 and have been tracked into adulthood through the Panel Study of Income Dynamics (PSID), an annual survey collecting information on family income and other characteristics. The PSID core sample includes an oversampling of low-income households (commonly referred to as the Survey of Economic Opportunity (SEO) sample) in addition to a regular cross-sectional national sample (the Survey Research Center (SRC) sample). Both components of the sample were included in the analysis, although two-thirds of the low-income sample observations were dropped from the sample in 1997 as a cost-savings measure and thus were excluded from the analysis.

The **unit of analysis** is the individual child. Individual **survey weights** were used to adjust for the likelihood of sample selection (given the purposeful oversampling of low-income households and the subsequent sample reduction) and also to adjust for non-random attrition. Despite these adjustments, the sample may suffer from non-random attrition, that is, individuals who have dropped out of the sample may differ from those who remain in the sample. The sample does not include immigrants who entered the country since 1968, nor does the analysis focus on generations born before 1950 or after 1968.

**Family cash income** is the focus of the analysis, including taxable income (such as earnings, interest and dividends) and cash transfers (such as Social Security and welfare) of the head, spouse and other family members. The PSID definition of family, used in this analysis, includes single-person families and unmarried cohabiting couples who share resources, in addition to families related by blood, marriage or adoption. As discussed in Appendix B, family cash income does not include the value of non-cash compensation such as employer contributions to health insurance and retirement benefits, nor does it include the effect of taxes or non-cash benefits such as food stamps. All incomes are reported in 2006 dollars, using the CPI-U-RS to adjust for inflation.

**Parental family income** is based on total family income averaged over five years, 1967–1971, following family income for the head of the family in which the child resided in 1968. This income is referred to as the child’s parents’ income, although the sample includes children living with grandparents or other relatives and it includes income of all members of the family (head, spouse, and other family members). Average age of the children’s parents was 40.9 at the time of survey interview (1968–1972). Five-year averages are used as a proxy for lifetime income.

**Children’s adult income** is based on total family income (of the family in which the adult child resides), averaged over five years of income. Because the PSID shifted from annual to biennial data collection in the mid 1990s, the five years of data are collected over a seven-year interval (income in 1995, 1996, 1998, 2000, and 2002). Family income data are collected at ages 27–34 for the youngest children in the sample (those born in 1968) and ages 45–52 for the oldest children (those 18 in 1968). Average age of the children was 39.4 at the time of survey interview (1996–2003).

**Negative and zero incomes** are bottom-coded to \$1, and individuals with missing data for two or more years in either five-year period were dropped. As noted above, this restriction resulted in dropping the portion of the SEO sample that was discontinued in 1997.

## APPENDIX B Non-Cash Contributions to Family Economic Well-Being

Economic mobility is measured in this series by tracking changes in families' cash income. While more comprehensive than earnings, family cash income does not account for fringe benefits, taxes, non-cash assistance and other factors affecting economic well-being. To what extent would mobility trends differ if these contributions were included?

- Absolute mobility would be higher with inclusion of the value of **fringe benefits** such as employer-provided health insurance, retirement benefits, vacation and sick leave. Employer contributions to retirement and health insurance were higher in the children's generation than the parents' generation, totaling 7 percent of wages and salaries in 1967–1971 and 13 percent in 1995–2002 according to aggregate national data.<sup>1</sup> The inclusion of these benefits would increase upward mobility the most for those at the top; jobs at the top of the income distribution are more likely to provide these health and retirement benefits. Workers in the bottom half of the distribution have suffered from substantial declines in health insurance and pension coverage since 1979.<sup>2</sup>
- Overall mobility is largely unchanged after an adjustment for federal **taxes**, but inequality is somewhat lessened. Taxes reduce disposable income, with the effect varying by family income. On average, federal taxes reduced average family income by 22.4 percent in the 1995–2002 time period, varying from 27.5 percent for the top fifth to 5.7 percent for families in the bottom fifth, according to the Congressional Budget Office (CBO). The effective federal tax rate has fluctuated somewhat over time, but was roughly the same in 1979, the earliest year in the CBO study as in 1995–2002 (22.2 compared to 22.4 percent). In other words, overall mobility is largely unchanged after adjustment for federal taxes, but inequality is somewhat lessened. Families at the bottom have experienced the largest reduction in tax rate, due to the expansion of the Earned Income Tax Credit.<sup>3</sup> State and local sales, property and income taxes take a further bite out of family income, with a tax burden that is more evenly distributed across the income distribution.<sup>4</sup>
- **Non-cash transfers**, such as food stamps and subsidized housing, increase disposable income for the poorest families. Federal spending on food and housing benefits increased dramatically during the five-year period in which parental income was measured (1967–1971) and has continued to grow since then. Spending per household on food and housing benefits grew by 53 percent between 1973 and 2003, a growth rate slightly higher than that for family incomes in the PSID sample.<sup>5</sup> In 2002, 5.6 percent of households received food stamp benefits averaging \$1,784 over the year, 7.1 percent of households received a school lunch benefit averaging \$695 and 4.6 percent of households received housing assistance averaging \$2,390.<sup>6</sup>
- **Other adjustments** that are included in some measures of disposable income can be both positive (such as returns to home equity and capital gains) and negative (such as child care and other work expenses).

In sum, these additional measures add some refinement to the mobility picture. Comprehensive measures that include fringe benefits and non-cash government benefits suggests slightly higher growth rates than seen from cash income alone. In addition, post-tax, post-transfer measures suggest somewhat less inequality than depicted by pre-tax measures.

<sup>1</sup> Council of Economic Advisers, 2007, Table B-28, p. 262. If one adds in employer contributions to government insurance, the ratio of non-wage compensation to wage compensation rises from 11.6 percent in 1967–1971 to 20.7 percent in 1995–2002.

<sup>2</sup> See Katz and Autor, 1998, Section 2.3, "Total Compensation Inequality vs. Wage Inequality"; see also Pierce, 2001.

<sup>3</sup> Congressional Budget Office, 2006.

<sup>4</sup> McIntyre et al., 2003.

<sup>5</sup> Author's calculations based on expenditures from Congressional Research Service, 2006, Table 5 and population data from Census Bureau, 2007, Table 57.

<sup>6</sup> Census Bureau, 2004. Table 7. Income of Households from Specified Sources, by Poverty Status: 2002.

However, the broader income measures show similar trends to cash income measures, namely, average family incomes have grown between the generations, with the most rapid income growth at the top fifth of the income distribution. For example, the CBO measure of after-tax, comprehensive household income shows a growth in annual income of 41 percent between 1979 and 2004, with a rate of 69 percent for the top fifth and 6 percent for the bottom fifth. Mean household income under CBO's disposable income measure was \$62,900 in 2004, ranging from \$14,700 for the bottom fifth to \$155,200 for the top fifth.<sup>7</sup>

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<sup>7</sup> Congressional Budget Office, 2006. Incomes are reported in 2004 dollars. The after-tax measure incorporates the effects of four major federal sources of revenue: individual income taxes, social insurance (payroll) taxes, corporate income taxes, and excise taxes. Comprehensive cash income is the sum of wages, salaries, self-employment income, rents, taxable and nontaxable interest, dividends, realized capital gains, cash transfer payments, and retirement benefits plus taxes paid by businesses (corporate income taxes and the employer's share of Social Security, Medicare, and federal unemployment insurance payroll taxes) and employee contributions to 401(k) retirement plans. Other sources of income include all in-kind benefits (Medicare, Medicaid, employer-paid health insurance premiums, food stamps, school lunches and breakfasts, housing assistance, and energy assistance).



## APPENDIX C Four-Part Typology of Economic Mobility of Sons and Daughters

It is important to demonstrate how men and women move beyond their parents in both absolute and relative terms. As shown in the Chapter V “Economic Mobility of Men and Women,” sons are slightly more likely than daughters to surpass the family incomes of their parents (69 percent compared to 64 percent), and there are fewer differences between men and women in relative movement up and down the income distribution. These two measures of mobility are integrated in a four-part mobility typology, presented in the table on the next page. It shows the following:

- **About one-third of both sons and daughters are *upwardly mobile*** in the sense of both getting ahead of their parents’ family income and moving ahead of their parents’ income ranking (36 percent of sons and 33 percent of daughters).
- **Another one-fourth of sons and daughters are *riding the tide*** and are making more than their parents but remain in the same economic position (27 percent of sons and 26 percent of daughters).
- **As with all children, there is a small percentage (5 to 6 percent) of both sons and daughters who are *falling despite the tide***; although they have more income than their parents they fall behind their parents’ economic position.
- **Daughters appear to be slightly more likely to be *downwardly mobile* than sons.** More than one-third (36 percent) of daughters make less than their parents’ income and fall behind or remain at their parents’ economic position, compared to 31 percent of sons.

**Much of the observed differences between men and women are concentrated in the experiences of children in the bottom fifth.** Almost two-thirds of men born to parents in the bottom fifth are upwardly mobile, while only half of women are.

**Children's Chances of Experiencing both Absolute and Relative Mobility,  
by Parents' Family Income and Gender (Percent in Each Category)**

MEN	PARENTS' FAMILY INCOME RANK					
	BOTTOM QUINTILE	SECOND QUINTILE	MIDDLE QUINTILE	FOURTH QUINTILE	TOP QUINTILE	ALL CHILDREN
Upwardly Mobile Higher income and up 1 or more quintiles	65 %	55 %	35 %	27 %	N/A <sup>1</sup>	36%
Riding the Tide Higher income and same quintile	20	20	28	35	35	27
Falling Despite the Tide Higher income and down 1 quintile	N/A <sup>2</sup>	2	4	10	13	6
Downwardly Mobile Lower income and lower/same quintile <sup>3</sup>	15	23	34	29	52	31
Total	100	100	100	100	100	100

WOMEN		PARENTS' FAMILY INCOME RANK				
	BOTTOM QUINTILE	SECOND QUINTILE	MIDDLE QUINTILE	FOURTH QUINTILE	TOP QUINTILE	ALL CHILDREN
<b>Upwardly Mobile</b> Higher income and up 1 or more quintiles	53 %	49 %	37 %	25 %	N/A <sup>1</sup>	33 %
<b>Riding the Tide</b> Higher income and same quintile	27	21	19	30	33	26
<b>Falling Despite the Tide</b> Higher income and down 1 quintile	N/A <sup>2</sup>	1	10	8	6	5
<b>Downwardly Mobile</b> Lower income and lower/same quintile <sup>3</sup>	20	29	34	37	61	36
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Brookings tabulations of PSID data.

Note: Totals may not add due to rounding.

<sup>1</sup> Those in the top quintile cannot meet this definition, because there is no quintile above the top quintile.

<sup>2</sup> Those in bottom quintile cannot meet this definition, because there is no quintile below the bottom quintile.

<sup>3</sup> Any observation with income exactly equal to parents is also classified as downwardly mobile. Source: PSID tabulations.

## APPENDIX D Four-Part Typology: Economic Mobility of White and Black Families

As a supplemental step in the analysis, the absolute and relative mobility measures presented in Chapter VI, “Economic Mobility of Black and White Families,” were integrated in a combined view to describe more fully how black and white Americans experience economic mobility.

**When the data are not controlled for income, there is not much difference in the mobility experiences of black and white Americans.<sup>1</sup>**

- Overall, slightly more than one-third of both black and white children are *upwardly mobile* in the double sense of rising above their parents in dollar levels and moving up at least one income quintile, as shown in the table below.
- About one-fourth of both racial groups are *riding the tide*, that is, rising above parental income levels in inflation-adjusted dollars, but without moving up an income quintile.
- A small group of individuals (6 percent of white children and 2 percent of black children) are *falling despite the tide*. They get ahead of their parents’ income in absolute terms but fall back one quintile.
- Finally, one-third or more are *downwardly mobile*, dropping below parents in both income level and income quintile.

**However, within income groups, there are large differences, with white children more upwardly mobile than black children.**

This contrast is illustrated by comparing children in the middle-income group. More than one-third of white children whose parents are in the middle quintile are upwardly mobile and one-third are downwardly mobile. Among black children from the middle quintile, however, only 17 percent are upwardly mobile and more than two-thirds (69 percent) are downwardly mobile. Similarly, white children in other income groups have higher rates of upward mobility than black children, while black children fall more heavily into the downwardly mobile category.<sup>2</sup>

How is it possible for blacks to be so similar to whites in the overall mobility findings when they lag behind whites in upward mobility within income groups? As noted when discussing mobility findings in the chapter, the positive mobility results for all black children are driven by the large number of children in the bottom fifth of the income distribution, where likelihood of exceeding low parental income is fairly high for both racial groups.

<sup>1</sup> There is no statistical significance between blacks and whites in the “overall” column, with the exception of the “falling despite the tide” category, where 2 percent of blacks is statistically different from 6 percent of whites.

<sup>2</sup> The differences between blacks and whites in both upward mobility and downward mobility are statistically significant for every quintile except the fourth, where, as noted, estimates are imprecise due to small sample size.

**White and Black Children's Chances of Experiencing both Absolute and Relative Mobility,  
by Parents' Family Income (Percent Children in Each Category)**

WHITES		PARENTS' FAMILY INCOME RANK					
	BOTTOM QUINTILE	SECOND QUINTILE	MIDDLE QUINTILE	FOURTH QUINTILE	TOP QUINTILE	ALL CHILDREN	
<b>Upwardly Mobile</b> Higher income and up 1 or more quintiles	69 %	58 %	37 %	26 %	N/A <sup>(1)</sup>	34 %	
<b>Riding the Tide</b> Higher income and same quintile	21	19	23	33	34	27	
<b>Falling Despite the Tide</b> Higher income and down 1 quintile	N/A <sup>(2)</sup>	1	7	8	10	6	
<b>Downwardly Mobile</b> Lower income and lower/same quintile <sup>(3)</sup>	10	22	32	33	56	33	
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	

BLACKS		PARENTS' FAMILY INCOME RANK					
	BOTTOM QUINTILE	SECOND QUINTILE	MIDDLE QUINTILE	FOURTH QUINTILE	TOP QUINTILE	ALL CHILDREN	
<b>Upwardly Mobile</b> Higher income and up 1 or more quintiles	46 %	26 %	17 %	11* %	**	37 %	
<b>Riding the Tide</b> Higher income and same quintile	27	24	9	22*	**	24	
<b>Falling Despite the Tide</b> Higher income and down 1 quintile	N/A <sup>(2)</sup>	2	5	16*	**	2	
<b>Downwardly Mobile</b> Lower income and lower/same quintile <sup>(3)</sup>	27	48	69	51*	**	37	
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	

Source: Brookings tabulations of PSID data.

Note: Totals may not add due to rounding.

\* Interpret data with caution due to small sample size. \*\* Too few observations to report.

(1) Those in the top quintile cannot meet this definition of "upwardly mobile," because there is no quintile above the top quintile.

(2) Those in bottom quintile cannot meet this definition of "downwardly mobile," because there is no quintile below the bottom quintile.

(3) Any observation with income exactly equal to parents is also classified as downwardly mobile.

## APPENDIX E Research Literature on Black-White Differences in Intergenerational Income Mobility

How do the findings in this study on Black and White mobility compare to results of other researchers? And does multivariate research indicate whether the differences observed in simple cross-tabulations would remain if the analysis controlled not just for income, but also for a host of other parental characteristics? Preliminary responses to these questions are provided in the following brief review of the literature on black-white differences in intergenerational mobility.

Economist Tom Hertz (2005, 2006) finds similar relative mobility patterns to those displayed in Figure 6, in Chapter VI, “Economic Mobility of Black and White Families.” In fact, his analyses, which include all individuals in the PSID who were born between 1942 and 1972, show even larger racial disparities, particularly with regard to black children being trapped in the bottom of the income distribution. From this pattern, he concludes that much of the overall intergenerational persistence of poverty in America is driven by the experience of black children. More generally, he argues that a key channel for the overall transmission of economic status from parents to children in the United States is the passing down of skin color and other characteristics that are correlated with race and that have social and economic consequences for their children.

Two new studies also report large differences in relative mobility between black and white families. Debopam Bhattacharya and Bhashkar Mazumder (2007) find that blacks are less likely than whites to transition out of the bottom of the income distribution, based on analysis of data from the National Longitudinal Survey of Youth. Dalton Conley (forthcoming) reports on upward as well as downward mobility by race, and, consistent with this study, finds substantial downward mobility among black families with high incomes.

Two studies of sibling correlations in earnings provide somewhat conflicting evidence about mobility differences by race. Anders Björklund and colleagues (2002) find that correlations in the United States drop from 0.43 to 0.32 (a drop of 0.11), when moving from the full PSID sample to a white-only sample, suggesting that race explains a sizable amount of the similarity of income between brothers in the United States. In a similar analysis of data from the National Longitudinal Surveys, David Levine and Bhashkar Mazumder (2007) find a somewhat smaller drop (of 0.04 to 0.07 depending on the time period), suggesting a smaller impact of race.

With regard to the possible factors contributing to black-white differences in income mobility, Hertz (2006) finds that the income gap between blacks and whites in the second generation is reduced, but only from 33 percent to 28 percent, when controlling for a vast array of parental attributes—not just parental income, but also parental education, family structure, annual hours worked by parents, homeownership, and parental attitudes and behaviors, among many others. After a number of different analyses, Hertz concludes that race itself is helping to determine economic outcomes for black children. He notes that he cannot distinguish whether this is a result of outright labor market discrimination, differences in quality of schooling, differential attitudes of children, or other unobserved factors. Bhattacharya and Mazumder (2007) find that cognitive skills of the second generation measured during adolescence explain much of the mobility gap between races, although they note their analysis does not explain the source of this difference in test scores. Drawing on the studies of Hertz and Björklund et al., Samuel Bowles and Herbert Gintis (2002) argue that race, along with wealth and schooling, is one of the three largest channels of intergenerational status transmission in the United States.

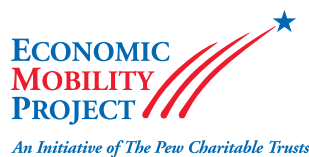
In a review of literature from the 1960s, 1970s and 1980s, Mary Corcoran (1995) also finds some evidence that low-income status is passed down from black parents to black children, with race-based differences in economic outcomes only somewhat reduced when controlling for various background characteristics. Dalton Conley (1999) argues that the wealth gap between black and white families explains much of the persistence of other inequalities that persist across generations. Not only do blacks have much fewer assets than whites, but intergenerational transmission of wealth from parents to children is the largest factor explaining why whites have higher levels of wealth than blacks.

This brief literature review is limited to the literature on intergenerational income mobility and race; the interested reader is also referred to the much larger literature on black-white differences in economic outcomes more generally.





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## ABOUT THE PROJECT

The Economic Mobility Project is a unique nonpartisan collaborative effort of The Pew Charitable Trusts that seeks to focus attention and debate on the question of economic mobility and the health of the American Dream. It is led by Pew staff and a Principals' Group of individuals from four leading policy institutes—The American Enterprise Institute, The Brookings Institution, The Heritage Foundation and The Urban Institute. As individuals, each principal may or may not agree with potential policy solutions or prescriptions for action but all believe that economic mobility plays a central role in defining the American experience and that more attention must be paid to understanding the status of U.S. economic mobility today.

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